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## **TAXATION, YESTERDAY AND TO-MORROW**

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# TAXATION

## YESTERDAY & TO-MORROW

BY

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Taxation*," "*Since Waterloo*," etc.

LONDON: P. S. KING & SON, LTD.,  
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# DEDICATION.

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THIS BOOK IS DEDICATED

TO

MR. AND MRS. SIDNEY WEBB,

BY ONE OF THE VERY

. . MANY THEY HAVE . .

ENCOURAGED AND HELPED.



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## PREFACE.

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**T**HIS book does not keep strictly to its subject, taxation. One cause is perhaps mere discursiveness. But there is another. Subjects taken for specialist study, especially when they relate to matters closely affecting our lives, should also be considered at times (indeed, often) not by themselves, but in connection with human interests.

This little volume, therefore, is not written as a text-book, though it contains some text-book material.

The writer is indebted to Sir Josiah Stamp, who courteously lent a copy of the proof of his book on "The Fundamental Principles of Taxation in the Light of Modern Developments" (Macmillan, 1921). This book was then in type, but the opportunity is used to make a comment in this preface.

Sir Josiah Stamp distinguishes certain aspects and tests of "Ability to Pay" :

The *Quantitative*, represented by the question, "How much have you got coming in?"

The *Time Element*, answering "Over what period?"

The *Economic or Pure Income* aspect; that is, its true nature, whether it is strictly to be classed as income "without any wastage or return of capital."

*Discrimination between Precarious and Earned Incomes*, which should appear in an inquiry commencing with "How did you get it?"

## PREFACE.

*Domestic Circumstances*; that is, the existence or extent of family claims upon personal incomes.

*The Economic Surplus Distinction*: “ Do you get anything in excess of the sum required to induce you to give your service or lend your capital? ”

It is not suggested, of course, that these questions should be, as it were, printed on Income Tax forms, else this last question might provoke hilarity, profanity, perjury and illustrations for the new psychology. But closer analyses of “ ability to pay ” are certainly needed, and, next, methods of applying them to our tax-system. For that system is becoming more and more an income-system.

# Taxation, Yesterday & To-morrow

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## CHAPTER I.

### PUBLIC FINANCE AND TAXATION.

**E**CONOMICS is only the Greek for housekeeping, and at bottom the principles of political economy are at one with the principles of sound domestic management. Similarly, the principles of taxation and public finance are those which guide a good household in the spending of its income. Thus public finance is as old as the organised public group. It becomes more definite, however, when money appears. Its taxes or tribute are no longer paid entirely in kind or in services, but in some standard money; and definite measured accounts become possible.

Public revenue is naturally divided into income and expenditure, corresponding with the same divisions in private accounts; and corresponding also to production and distribution in economic theory. The two branches of income and expenditure are considered separately for convenience, but, as in general economics, they are of the same stem. We cannot have a sound system of economics by establishing sound methods of production, whilst leaving distribution to chance. Nor can we frame a satis-

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factory system of national housekeeping by following the most excellent principles in securing an adequate income to the State, if we leave the State to spend its money wastefully or harmfully.

It is necessary to set this down, although it seems almost absurdly simple when it is set down, because in the past it has not always been realised. There were inquirers into economics who spent time and pains in examining the methods of production and exchange, and who seemed to assume that if a plentiful supply of goods was assured, with good systems of markets, money, and the general machinery of exchange, the task was finished. The distribution of the wealth produced would automatically follow, and upon satisfactory lines. We can no longer think so. The distribution of wealth is as important a matter as its production. When we look for a good result, we mean a result that is good by human standards. It is conceivable that the world's supply of economic goods might be secured more plentifully and more efficiently than at present, if the whole economic activities of the world were in the hands of about a dozen super-trusts, controlled perhaps by a hundred wealthy men. But if the human race as a whole had little control over these Trusts, their methods of production, however excellent, would give no guarantee that the system of distribution would be satisfactory.

Thus also, if a nation had an excellent system for securing a State revenue, it might not have a good system of spending its revenue. By wastefulness, by spending upon what brought loss rather than gain to its people, by undertaking needless wars, foolish schemes, unsocial adventures; by establishing huge

pensions and sinecures; by creating vested interests through venal endowments—in these and other ways it might easily destroy the benefits properly belonging to its good system of collecting revenue.

If, then, we leave the question of national spending on one side in inquiring into taxation, it is not because the manner and the principles of national spending do not matter. They matter very greatly. But taxation forms a branch of the question of national revenue, which in its turn, with national expenditure, makes the subject of national finance; and we may concentrate upon any branch or portion so long as we do not allow ourselves to forget that these branches grow from one trunk, and that the healthy life of one part will not in itself prevent the rottenness of another from endangering the life of the whole.

Private incomes are obtained from (*a*) ownership of some kind of property which yields an income, and from (*b*) earnings of labour of some kind. Public revenues can be classified into three groups, two of which are similar to those just mentioned. That is, public revenues may be obtained (*a*) from State properties which yield a revenue; (*b*) from earnings of labour, i.e., fees and other payments for services rendered by State departments; and, in addition, (*c*) from taxes.

It is evident, then, that a State which possessed rich properties might not need to levy any taxes at all; and that in all States where public properties produce a public income, the total of the necessary taxes will be reduced by the amount of that income.

Evidently then, taxes as we know them may possibly disappear from State accounts in the future. Their disappearance can result, in fact, from one of

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two very different causes. The activities, duties and expenses of State may be diminished by the handing over of everything possible to private enterprise. This was the hope of some violent individualists of the last century. Or, on the other hand, States may enter the economic field more and more, and may draw increasing revenues from properties of various kinds, so as to need less supplements from taxes.

Leaving aside these possibilities of future development, and considering the States of our own time, which (a) undertake many expensive functions, civil and military, and (b) which are poorly off, in the main, in properties, we have a state of affairs when some form of taxation is essential. The demands of States, as a matter of fact, are growing; and if public revenue is to grow, either public properties must be increased or heavier taxes levied.

Our comparison of the principles of national and domestic economy should imply that the principles of local finance must be fundamentally the same as those of national finance; and this, in fact, is the case. There are no principles of local finance apart from those of national finance. There are only differences of convenience in application.

The question of State property does not belong to this volume, except by way of introductory arrangement. But its importance may be realised if we think for a moment of the effect upon taxation of one great item. The State ownership of land is an idea that reaches far back in history; and there are still huge areas of State lands in many countries. It is not a great stretch of imagination to conceive the State, in this country, as the sole possessor of the land. Now the total rent of the country just

before the war was reckoned at over £800,000,000, which was fifty per cent. in excess of any pre-war Budget. A British State which held the land of these islands would not have needed to levy any taxes at all.

In the broadest and most important sense, there is no separate and definite Socialist theory of taxation. In a Socialist State there might easily be no taxation at all, for the State would be a great property owner. The theory of taxation is part of the theory of economics, which is part of social science generally. Socialist criticism of the older (18th—19th century) economics, and of some 20th century economics, has resulted in a few additional or contradictory theories. The more distinctively Marxian theories are the chief among these. But Marx himself built his theories upon the economics of the day, accepting much, criticising, adding, denying. He and other writers of his time and since turned attention to the great part played by economic forces in past and present history. Whether he over-stressed the effects of economic forces can still be disputed. But it can no longer be disputed that these forces play, have played, and will play a great part, a very great part, in human history; or that historians, until very lately, and often even now, fail to give anything like adequate weight to these forces.

The Socialist criticism of taxation, as expressed in theory and practice, is based upon the belief that a good State is not only one which tries to encourage the production of goods (in its economic activities), but which also, and even more insistently, strives after a much more equal distribution of the goods produced. For this work, taxation is one among many methods, and the readiest.



The Socialist is not here in opposition to economic science, but is only insisting that the accepted results of economic science should be more thoroughly applied. For every modern economist of any reputation is ready to declare, and many have declared, that a far more equal distribution of wealth than that now obtaining in any of the great "capitalistic" countries is economically desirable; is desirable, apart from all sentiment, from all questions of ethics, because such a system would improve the nations as purely economic organisations. That stands now as an ascertained and fixed belief or dogma or truth or law, of economic science in the twentieth century. It is not a distinctively Socialist assertion. It is the assertion of economists like Cannan and Marshall, who are not Socialists.

How far, then, can this equality be carried, without reaching a point where some economic deterioration sets in, or at least, where no further improvement can be expected from further equalisations? To that, the present body of economic science has given no answer. Each of us may supply his own answer, according to his measure of hopefulness or cynicism. But whatever may be the psychological limit, there is no gainsaying that in the field of pure logic Mr. Shaw's declaration that there is no stopping until we reach absolutely equal incomes for all, cannot be refuted.

## CHAPTER II.

### WHAT IS A TAX?

MEN have paid tribute, which is but an earlier form of taxation, for five thousand years at the least; perhaps for nearly twice as long. They have theorised about government for at least three thousand years. And in spite of this, a clear conception of the essential nature of taxation only appears in modern times.

The antiquity of taxes is shown in the long list of terms that have been used for one or other of its forms. In English we have aid, benevolence, cess, due, duty, excise, gavel, hilf, impost, levy, poll, rate, sess, subsidy, tariff, tallage, toll, tithe, tribute. Germany has a list as long, with abgabe, anlage, beitrug, gebühr, geld, hülfe, impost, licent, steur, schoss, tadel, zoll. France has aide, capitation, cotisation, dîme, droit, denier, douane, dixième, gabelle, impôt, levée, octroi, subside, taille, taxe, tribut, vingtième. All these forms—and the lists are not exhaustive—represent different shades of meaning, often different methods of collection. But in the main, they imply one thing—the thing we are here calling a tax.

The earliest writers did not as a rule attempt any definition which would express their idea of the central nature of a tax. They were often human enough to regard it as its name in most languages implies an imposition, burden, task, laid upon peoples, and without further distinguishing between

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it and other plagues that afflict suffering humanity. When we do come across a significant definition, however, it usually embodies a definite view of the nature of taxation.

Thus Hobbes, in three separate places, expresses a famous view of taxation : “ The impositions laid on the people by the sovereign power are nothing else but the wages due to them that hold the public sword, to defend private men in the exercise of their several trades and callings,”\*—“ *Leviathan*,” II., 30 (1651). That same year he wrote : “ Customs and tributes are nothing else but their reward who watch in arms for us.”—“ *Philosophical Elements*,” XII., 9. Four years later he repeats this idea : “ Those levies, therefore, which are made upon men’s estates by the sovereign authority are no more but the price of that peace and defence which the sovereignty maintaineth for them.”—“ *De Corpore Politico*,” II., 5, 2 (1665).

Now that conception of a tax as essentially a price-payment is one which runs for a couple of centuries through economic theory. It is important in this alone, but still more important because the conception and idea that we have of a tax will lie at the root of our theories of right and wrong, bad and good, in taxation, as in this case it did. A hundred years later we find Blackstone repeating it : “ The subject, when properly taxed, contributes only some part of his property in order to enjoy the rest.”—“ *Commentaries*,” I., viii., xvi (1765). “ The produce of taxes,” said Bentham, “ is to be looked upon as a kind of benefit which it is necessary the governing part of the community should receive for the use of the whole.”—“ *Principles of Morals and Legislation*,”

\* Quoted more fully in Chapter IV.

XII., xvii (1789). Taxes themselves he describes, correctly enough, as "sacrifices," and as "contributions to be collected from individuals." Ricardo and McCulloch define taxes simply as portions taken from individuals by a Government: a safe method of definition, copied by many later writers—"Taxation is the exaction from the various members of the State of contributions towards the common expenditure."—"Memoranda": Prof. Gonner, C. 9528, p. 144 (1899).

So far, we have two groups of definition. The one is somewhat cautious and not very full. It emphasises, more or less, the compulsory nature of taxation. Later writers stress this feature very definitely. "The most general feature of tax . . . is that payment is compulsory."—Nicholson: "Principles," III., v., vi. (1901). "A tax is a compulsory contribution."—Bastable: "Public Finance," III., i., § 8 (1903). "From the point of view of the citizen a tax is a coerced payment."—Adams: "Science of Finance," II., i., 49 (1909).

The other group describes a tax essentially as a price or payment for benefit received. But this is a view that the modern economist has abandoned. In fact, later definitions single it out for denial. "A tax is justified, but not necessarily measured, by the common benefit received."—Plehn: "Introduction to Public Finance," II., i., 5 (1909). A tax is "that portion of State revenue which is exacted irrespective of services rendered to the payers by the State."—"Cannan" (1910). "We may define a tax as a compulsory contribution made to Government, under stated conditions, when the contribution is not a *quid pro quo* for a specific service rendered."—Chapman:

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“ Outlines of Political Economy,” XXXIII. (1911).

“ The essence of a tax . . . is the absence of a direct *quid pro quo* between the taxpayer and the public authority.”—Tanssig : “ Principles of Economics,” II., vii., 66, i. (1911).

Here is, from Hobbes, Blackstone, and Bentham, a complete reversal. Instead of a tax being a payment for benefit received, the later writers declare that to be exactly what a tax is not. ( There remain two elements, and these together form the modern definition :

(1) A tax is compulsory ;

(2) It is not a measured payment for benefits received. )

Of these two elements, the first impressed itself early—and sometimes with painful force—upon general notice. The second did not emerge until the last century. The explanation is that in bulk, in intention, and to some extent in effect, a nation would not pay taxes at all unless there was a belief that benefit would and in fact did result ; so that in a sense taxes are (in mass) paid at least in the hope of benefits to be received. But when this view is applied to individual portions, or individual taxpayers, it results in an absurdity. If double the taxes are paid, it by no means follows that double benefit of protection or of anything else will be secured from the State. Taxes and benefits cannot be divided out into equivalent quantities to be set against each other.

( It is this character that separates taxes from another form of payment—prices. A price is a measured and proportioned payment. If a shilling buys a certain quantity of soap or cloth, then for two shillings we

may count upon receiving double that quantity. But the benefits that we hope for when we pay taxes cannot be weighed or measured in any such fashion. An improved Government may give us more of benefit for the same or less taxes. The same Government may increase our taxes next year, while its services to us may actually become less. Prices and taxes, in fact, are examples of payments at the furthest remove from each other. } The two characteristics of a tax are both reversed in the case of price. The tax is compulsory, the price (in its essence) is not. } Price is ear-marked, quantity for quantity, against the benefits it purchases. Double or half the price brings double or half the benefit. But no such parallel may be drawn in the case of a tax. It is in its very nature that there is no proportioning of it possible in relation to the benefits it ensures, or implies, or promises.

Now a theory of taxation which is built upon the incorrect idea that a tax is a price, in the ordinary sense of that word, is likely to be faulty. As a matter of history, this in fact has happened, as we shall see later.

A tax, then, is a compulsory payment, and it is exacted irrespective of any definite or measured services rendered, or to be rendered, by the State. It is sufficiently different from a price to be misrepresented if it is called a price. We could speak of price-payments and of tax-payments. Or we could speak of taxes as a social and collective price paid for something that cannot be divided, weighed, and measured against the separate shillings of the taxes. But unless we carefully explain our words in some such way as this, it is better to contrast a tax with a price than to call a tax a price at all.



## CHAPTER III.

### THE THEORY OF TAXATION : I.—PRE-RENAISSANCE.

THE oldest records of human development are those of the Middle East, in an area that takes in the Nile and Euphrates valleys. This development is in line with European rather than with Asiatic civilisations. India and China were cut off, by seas and mountains, from the succession of cultures that passed through Egypt and Crete into Greece; through the Hittites, Sumerians, Babylonians, Assyrians, Phœnecians, and into Greece; through the Medes and Persians, and again into Greece, being gathered and developed by the quick-minded Hellenes, and made a new starting-point for a new series of civilisations. The mark of this new phase was that the Greeks were free from the crushing mass of tradition and conservatism which arrested the development of the earlier civilisations. The Romans, who became the first heirs of the Greeks, were less agile and less open of mind than their teachers, and the speed of the advance of thought was lessened. In return, in compensation as it were, Rome gave order and stability, the gifts of the conservative spirit to the world.

When from the ruins of fallen Rome the separate nations of Europe arose, there emerged a great struggle of centuries, the contest of Church and State for supremacy. This was not a new thing, but the contest in Europe between the fall of Rome and the Renaissance was a fight of a thousand years (about 500—1500). It is, in fact, a struggle still continuing,



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though less dominant and arresting in the last four hundred years than in the four centuries preceding them. Human history has no other example of the "Church and State" contest which formed for so long a time an issue of the first importance to many millions of people.

The elements of the struggle, indeed, lie in all human societies. In the older Eastern civilisations, the forces that we now represent by the word "Church" secured for themselves a sufficiency of power, and no doubt contributed very largely to the worship of tradition, the looking back rather than forward. But the laws of life demand change and movement. The only perfect peace is death. In living things, in living societies, progression and retrogression are both possible, but standing still is not possible. The inspirers of the older civilisations, when a high development had been reached, felt a natural admiration for the elaborate social structure their forefathers had built. They said of it, as Wellington said of the British Constitution, so lately as 1830, that whoever wished to frame a perfect scheme could only strive to copy theirs. Now the general acceptance of such a view, at any stage of growth, means decay. It is an invitation to the dead hand of the past to lay itself upon the awakening future.

This general aspect of social growth shows itself in relation to taxation, as in other aspects of human development. In early days, taxes appear as offerings and tributes established by force of custom or by force of arms. The priestly caste relied chiefly upon establishing a powerful custom to secure their tithes, making the non-payment an offence, not against the

nation, or against citizenship, but against religion, against God. But the separation of religion from politics, Church from State, which is now so easy to our minds that it seems, as we say, quite "natural," was only achieved with difficulty through centuries of human growth and change. Indeed, the connection is still closer than we think. Church and chapel represent a political as well as a religious difference. The Sadducees, Cavaliers, Junkers, Tories, of all ages and countries, are the defenders of the Crown, of settled wealth, of the established (and rather older) form of religion. The Pharisees, Puritans, Reformers, Radicals, of all ages and countries, are those who call tradition into question, who are more alive to the world of to-morrow, and less under the charm of the world of yesterday, than their opponents.

Thus, where Church and State form one idea and one institution rather than two, there is co-operation between them rather than opposition. The moral force of the Church is not used much less effectively to secure her tithes than to give religious sanction to the monarch's tax-gatherers. Very often, in the early stages, the King and the Chief Priest are one. Our coins to-day, in the phrase *Fidei Defensor*, besides preserving the individual story of Henry VIII., who first bore the phrase as a title, preserve also the old human view that accepts naturally the head of the State as the head of the Church.

This conception of old times was a conception of the unity of social life. It marks the fact that human societies were not formed by a number of individuals coming together and contracting themselves into a State. Social life is as old as man—older than man. The idea of the rights of the individual is more recent than the idea of the rights of the community. And

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this also is illustrated in the social uses of the tithes. There is something of the idea of an excess profits tax in the regulation of Deuteronomy XIV., 28, 29 : "At the end of three years thou shalt bring forth all the tithe of thine increase the same year, and shalt lay it up within thy gates; and the Levite (because he hath no part nor inheritance with thee), and the stranger, and the fatherless, and the widow, which are within thy gates, shall come, and shall eat and be satisfied." The same law is repeated in a later chapter of the book (Deuteronomy, XXVI., 12). The explanation about the Levites being included represents a time when the priesthood had no wealth of its own, but relied entirely upon the gifts of the faithful. But the chief significance of the passage is in the social aspect of the tax, which is to be used for those in need. And this social character of taxation is fundamental. It went under, as we shall see, in a period where the idea of men as individual units was paramount, but it emerged again as a reaction from that period.

In the early days of a religious system, it was, of course, common enough for the members of the faith to have little or no corporate property, and this no doubt furnished the chief ground for the claim of the clergy to be exempt from "the King's taxes." The parallel claim of exemption on the ground of being sacred and superior to civil government, would also be present; but the practical fact that poor people (clerical or lay) cannot effectively contribute would have its due weight. A document of Artaxerxes, quoted in Ezra, concedes the claim very distinctly : "And we certify you that touching any of the priests and Levites, singers, porters, Nethinims or servants

of this house of God, it shall not be lawful to impose toll, tribute or custom upon them.”—Ezra, VII., 24. But, as Bishop Grosseteste used to say, “Twice makes a custom”; and the claim was successfully maintained through many centuries, by a Church grown wealthy.

In the ancient Hindu laws there were similar exemptions—learned Brahmins, women and boys, among others.—“Apastamba.” In the “Vasishtha,” and in Gautama’s “Dharma Sutra,” artisans are to do one day’s work monthly, by way of tax. The proportions vary from one-twentieth, a toll to be paid by the seller of merchandise, to one-tenth, one-eighth, or one-sixth to be paid by cultivators. In an agricultural country, this would be the chief source of revenue. The Laws of Manu set the proportion at one-twentieth of goods sold, and other fractions from one-fiftieth of cattle (this was a property-tax) to one-sixth of certain crops.

In the accounts we have of these taxes, there is little theorising, but the necessity of the King protecting the taxpayers is cited, and the King is counselled to be moderate, taking little by little, “as the leech, the calf, and the bee take their food.” In time of distress the King may take as much as a fourth, “if he protects his subjects to the best of his ability,” but he should not “cut his own root, nor the root of others, by excessive greed.”—Laws of Manu.

Herodotus tells that the revenue of Seostris, of Egypt, was obtained from land rents, and that officers were appointed so that “no man might be taxed beyond his ability.”—Herod, II., 109. Here is an early expression of the doctrine of “ability to pay,” though in a simple enough form. Plato, in the

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“Laws,” argues for a valuation of all property, and a register of yearly income, to be used as a basis of taxation, so that either a capital tax or an income tax (to use modern terms) might be fixed, as seemed best to the assessors.—Laws, XII., 955. The modern anomaly of land assessed for taxation at a low figure, but for sale at a high one, suggests a reason for this double registration.

Livy, in his “History,” says that in early Rome (about 500 B.C.) “the commons were exempted from port duties and taxes, so that the public expenses might fall upon the rich, who were able to support the burden : the education of their own children being a sufficient tax upon the poor.—(II., ix.)

The most striking case in early writings is that given by Pollux in “Onomastikon,” VIII., x., 130 (2nd century, B.C.). Here is a definite scale of taxes, in four steps, which may be translated thus :

	<i>Income</i>	<i>Tax</i>
(1)	500 medimini .....	£240
(2)	300 „ .....	£120
(3)	200 „ .....	£40
(4)	Below 200 .....	Nil

Members of the labouring class paid nothing and were ineligible for any public office. If we set aside the changes in the value of money, and of the standard of life, we get these proportions :

An income of 300 pays 144 .			
„	„	180	„ 72
„	„	120	„ 24

This is a "steeper" scale than any modern graduated tax.

It is not at all likely that this was a solitary case of a graduated scale in taxation. Seligman quotes another in the fourth century B.C. The frequency of early graduated scales of taxation, and the exact details of Solon's or of any other system, do not matter very much. The point of real interest is that a graduated or progressive scale, which had to fight its way, as an economic heresy, at the end of the nineteenth century, was not a "new-fangled idea," but an old one which has been overlaid. We might consider this question in relation to any period between the time of Solon and the end of the nineteenth century. But as it marks the fixity of a doctrine that was dominant for centuries, and as it introduces a long period in which there is little of new development to trace, we may quite reasonably treat of it here.

The doctrine that was fixed was proportionalism, or equal percentages; i.e., that if the man with an income of £2,000 paid five per cent., £100, and the man with £200 paid five per cent., £10, justice and equity were secured. It is quite crisply and definitely expressed in the "Codex Justinianus" (529 A.D.), a digest of Roman Law—public charges should be in proportion to fortunes. When we come to deal with the more exact meaning of equality, equity, justice, in relation to taxation, we shall see that the battle between the proportionalists and the progressivists is one of very great importance.

Before closing our glance over early views of taxation, we may make a reference to China; not only because it falls in the period of this chapter, but

because it raises again this question of proportionalism or graduation.

In "K'ung Ying-ta" (about 600 A.D.) we have this curious passage: "The pitcher has been exhausted. It is the shame of the jar. It means that this is the shame of the drinker who takes charge of the jar. The large jar is like the rich and large family; the small pitcher, the small and poor family. If both the jar and the pitcher are arranged for drinking, one should drink more from the jar and less from the pitcher, until both are exhausted; this is the principle of equality. It is just the same principle as that of taxation: when both the rich and the poor are taxed, in money as well as in labour, one should tax the rich more, and the poor less, up to the point that both can bear the burden: this is also the principle of equality."—"The Canon of Poetry."

Here is what in modern terms is called the principle of equal sacrifice. This leaves, for a stage, the case between proportionalism and graduation still to strive as to which the better secures equality of sacrifice. But Dr. Chen Huan-Chang says that the Confucians of about the second century A.D. declared decisively for progressive taxation. He says:

"According to Cheng Hsuan (127—200 A.D., described as 'the chief figure among all the Confucians of the Han dynasty') and to K'ung Ying-ta (574—648 A.D.), a tax should be progressive rather than proportional, because it should put the rich and the poor on the same footing in accordance with their ability."—"The Economic Principles of Confucius and his School": Columbia University Publications.

We have clearly, then, in the Athens and the China of many centuries ago, the theory and the practice

of proportional taxation clearly set forth. Yet in the centuries that follow it disappears, it becomes an economic heresy. The earlier editions of the standard English treatise (Bastable's "Public Finance") rejected it, the later editions accepted it with lingering misgivings. Orthodox opinion declared in favour of proportionalism.





## CHAPTER IV.

### THE THEORY OF TAXATION : BODIN TO ADAM SMITH.

WE take up the story again in the sixteenth century. It seems extraordinary that we should leap from the early Greek and other ancient writers to the age (in these islands) of Elizabeth. There were taxes and to spare in the long interval of centuries; but there was little speculating or theorising about taxes. The bulk of the interval is filled by the "Middle Ages," that bridge over from the Roman world to the modern world of patriotic nations. The reasons of the barrenness of thought concerning taxation (and of many other questions, vigorously alive to-day) belong to political and social science generally, to the history of the mind of man, rather than to the story of taxation; but some wandering from our marked course we may allow ourselves for the interest and importance of the cause.

There was thought and inquiry enough in the Middle Ages, but it was guided, as always, by the lives and interests of the time. The overmastering questions through the whole period were concerned, directly or indirectly, for all with leisure to think, with concerns of religion, the Church, and the problem of fitting the claims of the infant States to the commanding claims of the Church. "In the Middle Ages," says Figgis, "the Church . . . was the State. The State, or rather the civil authority (for a separate society was not recognised) was merely the police department of the Church."—"From Gerson to Grotius."

Even if we think this too neat and brilliant to be exactly true, it is so close to the truth that it explains very much in the life of the time that differed for the life of our own age. It explains, to some extent, why the subjects of inquiry were limited.

But the bread and butter of life is ever present, and therefore there would be theorising upon economics. There was, but it chiefly turned upon the slow economic change which broke up the manorial system, the feudal serfdom, the self-supplying village, the common cultivation of land, the separation of large numbers of men from any claims upon any land, the uprising of a new class of wealthy traders. As for taxes, there was the dispute between three claimants to them—the Church, the King, and the local lord. There was the constant outcry against their magnitude. There was the long protest against the system of farming taxes, and the extortion of the tax-farmers. And there came up, as in England during the civil war, the question whether the ruler had or had not the right to levy taxes according to his judgment: a question already in the making during the Middle Ages.

This last carries us into the modern world; but the economic changes that lay behind it, added to the effect of an overshadowing Church, explain sufficiently the barrenness of the period in theories of taxation. We take up the story with a thinker of the Renaissance, Bodin.

In “*Les Six Livres de la République*” (1576, translated as “*The Commonweale*” in 1606), Bodin declares that the State should not resort to taxing until other means are exhausted, these being revenues from State lands, from tributes (from conquered

enemies), from gifts (tributes of allies), from traffic, and from trading merchants. He favours a general tax upon land—"the law exempts neither Pontiff nor noble"—and, if that is not sufficient, a tax upon goods such as salt and wine. But he has no theory of taxes.

We come to the "proportional or graduated" dispute again, about this time, in La Mothe de Vazer, who says that taxes should be "in geometrical rather than in arithmetical proportions." La Mothe is firm against proportionalism. The full-blooded, he says, can bear copious and frequent bleedings.

Hobbes sets out in plain terms the "benefit" theory of taxation; one that held the field for two centuries :

"For the impositions that are laid upon the people by the sovereign power are nothing else but the wages, due to them that hold the public sword, to defend private men in the exercise of their several trades and callings. Seeing, then, that the benefit that everyone receiveth thereby is the enjoyment of life, which is equally dear to poor and rich, the debt that a poor man oweth them that defend his life is the same which a rich man oweth for the defence of his; saving that the rich, who have the service of the poor, may be debtors not only for their own persons, but for many more."—Leviathan, II., 30, 1651.

By this argument, everyone should pay the same in taxes, since taxes are only payments for the enjoyment of life, and lives are equally desirable to all. Payments should not be in proportion to wealth, "for what reason is there that he which laboureth much, and sparing the fruits of his labour, should be more charged than he that, living idly, getteth little, and

spendeth all he gets? ” Only, as the rich “ have the service ” of a number of the poor, they must pay the (equal) charges upon those of the poor whose service they enjoy. Taxes upon goods, he says, equalise themselves, for “ every man payeth equally for what he useth.”

There is a brutal directness about Hobbes that has always appealed to “ hard-headed ” men whose equal hardness of heart is disguised and self-excused by being dressed in a gown of intelligence and unprejudiced reasoning. But the reasoning will not bear analysis. The thesis is essentially this :

1. All set equal values on their lives ;
2. Life is only to be enjoyed under the government of a ruler ;
3. All benefit equally from this rule ;  
(Not one of these statements is more than a partial truth.)
4. Therefore all should pay alike for these equal benefits.

The “ benefit theory ” has played a large part in the history of taxation. It has seldom been more consistently stated than by Hobbes. It is fundamentally unsound, for it represents a tax as a price, which it is not ; it assumes a fixed amount of tax as an offset to a fixed amount of benefit, which is a denial of the very definition of a tax, as given by every reputable economist of to-day. Hobbes’ argument, naturally, tells for proportional as against graduated taxation. In another place he says :

“ For the burdens of the Commonwealth being the price that we pay for the benefit thereof, they ought to be measured thereby.” Therefore, “ the burthens and charges of the Commonwealth ” are to be divided “ proportionably.”—“ De Corpore Politico,” II., 9, 5. In another place he seems to think that these “ burthens ” of the Commonwealth are not really burthens to the people. The heavy taxes paid to Edward III. and Henry V. will be recalled, he says, with memories of national glory. And even “ the enriching now and then a favourite is neither sensible to the kingdom (i.e., is not felt by the kingdom), nor is any treasure thereby conveyed out of the realm, but so spent as (that) it falls down again upon the common people.”—“ Dialogue.” By this argument, taxes in the long run make hardly any difference at all.

But is there, then, no truth whatever in the “ benefit ” theory? Should we pay taxes at all, unless we believed that benefits would accrue? We should not. The question leads us direct to the core of truth that the theory held. It may always be doubted, where a theory has been generally supported, whether there is not an aspect of truth that it represents, however imperfectly. Even the theory of witchcraft—once very generally held—expressed some of the facts that modern psychology is now expressing in quite another fashion. The theory that the sun was a small body revolving round the earth expressed definite facts of observation.

So with the “ benefit ” theory. If we consider the whole of a nation’s taxes as a mass, and the whole of the services of government as a total, then it is true that we pay our taxes in order to secure the

benefits that government stands for. But this is as far as we may go. As soon as we attempt to set so much tax against so much benefit, the theory fails us; and it is just here that we need it, to decide between different dues and duties. The theory only tells us that a tax is a payment for something. But a price is also a payment for something, and these two kinds of payment are differences as distinct as the two words that express them. A price is not in its nature compulsory, and twice the price is balanced by twice the benefit. A tax is essentially different on both points. The "benefit" theory is only true where it is of no value to us. To give it a general acceptance is to falsify our reckoning.

Locke pointed out that "in a country where the great fund is in land," all taxes, whoever paid them in the first instance, would really fall upon land.—"Consequences of the Lowering of Interest," 1691. The Physiocrats across the Channel developed this idea a little later.

Hume considered the best taxes to be those upon goods ("consumptions"), especially upon luxury goods.—"Essays," II., VII., 1741. He said they are the "least felt" of taxes, which is not true unless it is taken to mean "least noticed." Experience has shown that luxury goods cannot furnish great sums in taxation, so that taxes upon goods, in practice, fall largely upon the necessities of life, and press more heavily upon the poor than upon the rich. Hume denies Locke's statement that all taxes fall ultimately upon land.

Montesquieu brought to the notice of the modern world the old and forgotten practice of progressive taxation. In his chief work, "*De L'Esprit des Lois*"

(1748, translated as "The Spirit of Laws" by Nugent a few years later) he gave a rendering of the passage from Pollux which has already been mentioned.—"L'Esprit des Lois," Book XIII., Chapter VII. Of this ancient Athenian system he says: "The tax was just, although it was not proportional. It was not proportional to property, but to need. It was held that physical necessities, which are the same for all, should not be taxed. Next come utilities, which should be taxed, but not so much as superfluities. On these the taxes should be great enough to prevent any superfluity." In that case, of course, the taxes upon superfluities would cease to yield any revenue at all. Montesquieu here has not kept the distinction he makes in his own classification of taxes, (1) on persons, (2) on land, and (3) on goods. All taxes, in fact, are paid by persons. This may be called an economic truism. But persons may pay their taxes (1) simply as persons—a poll-tax, of an equal amount per head, being a very simple example; (2) as members of some group which is taxed as a whole; (3) as owners of land or of other valuable goods; (4) as receivers of income, in wages, salary, fees, profits, or in any other ways, possibly distinguished from one another in the taxing system (as in our "earned" and "unearned" tables); (5) as buyers of goods; (6) as importers or exporters of goods across a frontier line; (7) as dwellers in houses; (8) as travellers upon roads or bridges, or as entrants into certain areas, such as markets; (9) as parties in contracts (stamp duties); (10) as heirs of property or wealth.

The list, it will be seen, is full of "cross references." The same person may be paying under half-a-dozen



or more different heads. The items are given for illustration only; they are neither complete nor systematic.

We may note, in this passage of Montesquieu, an almost complete statement of the fundamental principle of taxation, discussed more fully in Chapter IX. of this book. Montesquien was in several ways, as the phrase has it, "in advance of his age." His idea of the proportioning of burdens to needs was submerged under the weight of other interests and doctrines.

We have now arrived at a group of thinkers and writers of France in the eighteenth century who called themselves "The Economists," but who are more generally known as "The Physiocrats"—Quesnay, Turgot, Du Pont de Nemours, Mercier de la Rivière, Mirabeau (the elder of that name, and writer of "The Friend of Man," a title given to the author of the book as a nickname).

The argument of the Physiocrats was simple. All occupations save one, they said, only produced enough to pay those engaged in them—to pay, that is, enough to induce men to engage in them at all.\* One source of wealth, however, yielded a "net product" over and above these necessary payments. That source was the land. All taxes, in fact, however levied, were really paid out of this "net product" of the land, sooner or later, since there was no other fund available. Plainly, then, the sensible thing to do was to drop all taxes except those on land. Owners of land should not object to this. They would only be paying at once what, in any case, they must pay, whether they were aware of it or not.

\* In Mr. J. A. Hobson's phrase, these other occupations yielded only a "productive surplus." See later.

The whole case of the Physiocrats cannot be maintained. Later economic inquiry has shown that forms of rent, or "net product," or "unproductive surplus," appear in other cases than that of land. But their work prepared the way for a better understanding of rent, and laid the foundations of the view that taxes levied upon pure rent have this peculiarity—that they cannot be shifted from the shoulders of the receivers of rent to those of others; and broadly, that statement stands. Its limitations have been very fully explored and described by Professor Nicholson ("Principles of Political Economy"). The Physiocrats were, of course, opposed to indirect taxes, and M. Eugène Daire, the editor of the standard collection of Physiocrat writers, expresses this in an aphorism: "Indirect taxes, poor peasants; poor peasants, poor kingdom; poor kingdom, poor sovereign." He might almost have introduced the danger of revolution in his series, for the French Revolution was preparing even as the Physiocrats were writing (their writings, indeed, like so many other factors, went to its making), and heavy indirect taxes had their share in paving the way to direct revolution.

Adam Smith was a student of the Physiocrats. In his lectures he showed a preference for taxes upon land, because they were easy to levy, and did not cause the price of corn or beef to rise. These lectures were delivered at Glasgow, 1761—1764. They were published in 1896 (Clarendon Press), from the notebook of a student. "The Wealth of Nations" came some years later (1775—6).

In this interval there was published in France the "Mémoires" of Moreau de Beaumont (1768—9),

upon the European systems of taxation. A copy of the book was sent to Adam Smith through or by Turgot, and it probably suggested much of what appeared later in "The Wealth of Nations" on the maxims or canons of taxation. Moreau de Beaumont says (1) that each individual should contribute according to his abilities; (2) that the taxes should be so distributed as to make them as equal, "and therefore as little onerous as possible"; (3) that they should be uniform; (4) that they should be upon a fixed and certain basis, and not arbitrary.

Further, he works out in detail a progressive scale. This should be considered along with No. 1 above, for that has been taken to imply proportionalism. He is aiming at "securing justice and proportional equality," not mathematical proportionalism.\*

The four maxims (or "canons of taxation" as they are sometimes called) of Adam Smith, given in the "Wealth of Nations," may briefly be summarised thus :

I. The subjects of every State should contribute in proportion to their abilities; that is, in proportion to their incomes.

Adam Smith seems to have thought that the second phrase simply repeated and explained the first. It does not, as Moreau de Beaumont's rendering (above) plainly shows. To pay in proportion to one's income is only paying in proportion to one's ability, if increase of income gives increase of ability to pay in strict proportion. But this is not the case. A man living upon an income yielding him the bare necessi-

\* Copies of Beaumont's work are scarce, but the Goldsmith's Library of the University of London has two copies (of 1748 and 1787). There is an account of the book, with a translation of the scale, in "The Nature and First Principle of Taxation." (P. S. King.)

ties of life is not "able" to pay a tax of, say, ten per cent. in the sense that a man with £10,000 a year is able to pay the same percentage. By the second phrase, Adam Smith committed himself to the doctrine of proportionalism.\*

II. Taxes should be certain, and not arbitrary. The time, manner, and amount of the payment should be clearly known.

III. The time and manner of levying should be made convenient to the payers.

IV. Taxes should be economical in action, so that the Treasury shall receive almost as much as the citizens pay.

These maxims have been summarised under their respective significant words, thus: I., Equality; II., Certainty; III., Convenience; IV., Economy.

Of these maxims, and especially the first and fourth, we shall have more to say later on.

\* In the same book, however, he advocates graduation: "it is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion." (Wealth of Nations, Bk. V. 2, II. 1.). This passage, however, has been less noticed than the "maxims."



## CHAPTER V.

### THE THEORY OF TAXATION : THE AGE OF ORTHODOXY.

WHEN the scattered fragments of knowledge that lie stored in the records of centuries begin to be searched for and arranged, it is usually because an individual, a group, or even a nation has had its interest aroused in a particular question or subject. "The instinct of curiosity and the emotion of wonder" are actively alive concerning a definite group of facts and opinions. In the case of an individual, or even of a group (small at first) this may be the pure passion for knowledge. In the case of a large group, the driving force that intensifies the emotion and stimulates the search is a strong belief, dogma, prejudice, instinctive and not reasoned (though perhaps eminently reasonable); or else there are powerful interests involved. Even in this latter case, the *belief* that interests are involved is the effective thing, and it is in its earlier stages quite instinctive and unreasoned also, though quite possibly reasonable. Lord Robert Cecil has recently declared that he opposed the grant of self-government to South Africa in 1909 through a belief in its danger to the interests of the British Empire. Events killed the belief.

The next stage sees a gathering of facts and data of all kinds bearing on the subject upon which a new interest has been aroused. Collection is followed by the arrangement and classification of the facts. The classes and groups of facts begin to suggest new resemblances and differences, and very soon infer-

ences begin to be drawn, and these are shortly put into the form of rules, principles, laws.

When the subject is of sufficient general interest, a very wide and varied mass of comments, written or spoken, accompanies the forming of the new "laws." From this confused conflict there emerges a dominant group, formulating an orthodox faith. This orthodox group establishes itself in a firm and dignified position. The framework and outline of its case is formed rather early, and if this outline is such as to permit of very considerable changes and alterations, the establishment may have a very long life, even if it is obliged to admit, openly or secretly, a great deal of inaccuracy and falsity in its first statements.

This stage in the history of the new source of interest, "Political Economy," definitely began with the publication of "The Wealth of Nations." It ended, much less definitely, towards the close of the nineteenth century. The mark of that century was Industrial Individualism, and that mark was naturally set upon the orthodox theories of taxation as upon other theories and other acts of faith. Its central idea was that public revenues, like public activities of all kinds, were evil necessities. They should be kept at the lowest possible point, so as to allow the freest play and the widest possible field of action, to private enterprise. The spur of private enterprise was private individual profit. Taxes diminished this profit, and so blunted the spur. The more plainly a particular tax seemed to "rob" a man of a part of his profits, the more the tax seemed to be bare confiscation, booty or blackmail levied by the new robber-baron, the State. This attitude is still

a favourite one in the City, for reasons as obvious as they are natural.

“A treatise upon finance,” writes Bentham, “ought to begin with two tables : (1) a table of all the inconveniences which can possibly result from every kind of tax ; (2) a table of all the taxes, arranged in the most convenient order for facilitating the comparison and showing the particular qualities of each one.”—“A General View of a Complete Code of Laws,” XXIX. In another work he says : “Taxes take from present enjoyment : they diminish comfort . . . diminish future wealth.”—“Manual of Political Economy.” He prefers indirect taxes to direct, like many writers of his time and some of our own time, and for the reason most commonly given : that they are “voluntary.” But this argument confuses qualitative and quantitative values. If there is a tax of, say, ten per cent. upon grand pianos, and I think myself just about able to spend £200 on a grand piano, knowing I must also pay £20 tax, then I may “voluntarily” pay the tax in the sense that I might have done without the piano, and saved the tax (spending the £200 on untaxed articles). But if the tax is upon corn, what mockery is it to tell me that I prove the voluntariness of the tax because I do not refrain from eating bread ! It is in the very nature of any tax to be compulsory, and not voluntary.

Ricardo's definite contribution to the theory of taxation was of less importance than the indirect results of his description of rent as (in the modern phrase) the typical unearned income. This view by no means appeared first in Ricardo's writings. The settlement of the earth by man has followed its natural



stages (1) when all land was for common use, as air is now; (2) when certain tribes or groups claimed certain areas, at first for hunting grounds; (3) when within these areas lands were cultivated in common; (4) when individuals or families obtained some kind of recognition of a private claim; (5) when private ownership of land had the full support of law (even where covered by a legal fiction such as that "absolute ownership" remained with the King or the State). Through all these stages, continuing until to-day, the world held also areas of unclaimed lands, to be had for a nominal payment, or for no payment at all. But these free areas have contracted, and at an accelerating rate. They naturally disappeared first in the most desirable districts, and in the most populated regions. In the fourth and fifth of the stages outlined above, land began to be held, not only by the families who worked it, but by some who did not work it, but let it out to others for rent.

Now it was natural that criticism should soon accompany this last development, just as it accompanied the rise of usury: and in fact this criticism is ancient enough. But there was no distinct criticism of rent as a definite kind of income, until a clear account of it appeared, showing with some exactness how rent arose, and defining it. This did not occur until the nineteenth century, and the essential parts of the explanation were made by Ricardo. The earlier protests were put in terms of capital, and not of income. The wealthy people who added field to field were measured by the store of wealth they had. To-day, we measure them rather by their "power of continuous demand." They have a standing claim on the present and future production of economic

goods and services. They reach a hand to future years, and decree that ten thousand people of all races, yet unborn, shall yield to them or to their heirs such and such functions of the fruits of their labour. This is the nature of some incomes; and it is not strange that as its great significance emerges, this type of income should attract men's minds. We can see emerging, as economic inquiry and analysis extend, a shifting of attention from the total amount of wealth to the continuous production of wealth; to income as a chief measure of wealth; and to the kinds of income. Among these, rents are noticeable by certain marks that have a natural human fascination. They are utterly unrelated to any effort or desert on the part of the receiver; and, in the case of land rents, they yield interminably: in any country where population, trade or industry increases, they mysteriously increase.

The Ricardian theory of rent was only a part of the orthodox theory of the early nineteenth century. It was the part least criticised then or now. What has, in fact, occurred to it is further development, with some corrections of phrasing. The Socialist criticism of the Orthodox school was, on its economic side, developed from an acceptance of Ricardo's law of rent and his law of wages. There was also, during the formation of the orthodoxy that may be centred upon Ricardo's name, a good deal of criticism, outside the definitely Socialist groups. We can but mention, in passing, a few names of writers in the British Isles: Ogilvie (1736—1819), Paine (1737—1809), Spence (1750—1814), Dove (1815—1873), Longfield ("Lectures on Political Economy," Dublin, 1834). But the orthodox establishment was not very greatly influenced by these or any other critics. It was framed

chiefly, after Adam Smith, by Ricardo and the two Mills, and popularised by J. S. Mills' "Principles of Political Economy" (1848) and McCulloch's less interesting "Political Economy" (1825).

In this period, we need not cite advocations of proportionalism, or "taxes according to income" as the equivalent of equity; it is quite general, from Sismondi (1773—1842) to Leroy Boileau (1906 edition). Dr. Armitage-Smith's discussion (1906 edition) of Adam Smith's first maxim represents the uneasiness of the orthodox in a world slipping away from orthodoxy.

Torrens (1814—1884) favoured taxes upon "vested property, the rent of land and houses, money on mortgage or in the public funds" (i.e., in modern terms, on unearned incomes generally) because this would relieve the "actively productive class."

McCulloch characteristically declared that taxation "should always be kept within the narrowest limits," and he quoted with approval J. B. Say's aphorism that the best rule of finance was "to spend little."

J. S. Mill was for "equality of sacrifice," but, like his contemporaries, he declared against progressive schemes. "To tax the higher incomes at a higher percentage than the smaller is to lay a tax on industry and economy. . . . It is partial taxation, which is a mild form of robbery." But he was in favour of a system of inheritance taxes ("death duties"), here following Bentham, and anticipating action that only came much later.

Thiers (1797—1877) expressed admirably the ideas of the "bourgeois Government" of Louis Philippe, in which he held office. The art of taxation, he says,

is "to take money where it can most easily be found." He condemns progressive taxation, of course, and thinks that to "broaden the basis" of taxation is too plainly excellent to need demonstration. "Taxes should be infinitely distributed, and should tend to become fused with the prices of things, so that each will bear his part, not in virtue of paying to the State, but in virtue of his being a consumer."

This view continues to be put forward, as in most of the British Press during the Tariff Reform and the 1909 "Lloyd George" Budget periods, and it will certainly be advocated again in the near future. It is therefore pertinent to say at once that it is bad finance, bad politics, and bad economics. It is bad politics because it is part of his training in citizenship that the taxpayer should pay, and should know that he pays, as a citizen, and not as a consumer. It is bad finance because indirect taxes very often cost the consumers far more than the State ever receives. It is for this reason that a downright bounty is often far preferable to an indirect tax. M. Gide works out that an import duty on corn coming into France (1906) of seven francs the quintal would bring 70 million francs to the State, but would cost the French buyers of corn and bread 560 million francs. Thirdly, the view is bad economics because it is bad finance and bad politics, and still more, because it shows a preference for an easily-levied tax to one that will least hurt the economic life of the nation. M. Thiers says also that direct taxes belong to barbarous, and indirect taxes to civilised countries: which is bad history to come from a historian. He has never made clear to himself the distinctions between tribute, taxes and prices.

Towards the end of the nineteenth century, the orthodox belief in proportionalism was challenged from more than one quarter, the foremost of the Progressivist economists being Professor Seligman ("Progressive Taxation in Theory and Practice," and other works). Stanley Jevons, in an interesting declaration on the Match Tax, 1871, stood gallantly to the guns of orthodoxy. "The more carefully and maturely I ponder over the problem of taxation," he wrote, "the more convinced I always return to the principle that all classes of persons above the rank of actual paupers should contribute to the State in the proportion of their incomes. . . . From feelings of humanity we might desire to graduate the rate of contribution, and relieve persons who are comparatively poorer at the expense of those who are comparatively richer. But we must beware of obeying the dictates of ill-considered humanity." (This change from "humanity" to "ill-considered humanity" is a bad lapse in the argument of a writer on logic.) . . . "I reject, then, for two distinct reasons the dictum that necessities should not be taxed. . . . I believe that we have arrived at that point of financial reform when a minimum of change is desirable." This was in 1871. Wellington, 41 years earlier, expressed his belief that a similar finality of almost-perfection had been reached in the matter of constitutional reform. The gods inspire men to be especially solemn, to develop the sense of humour of the next generation.

In the year that Jevons was declaring for "a minimum of change" in taxation, a pamphlet was published in San Francisco on "Our Land and Land Policy," by Henry George. "Progress and Poverty"

followed in 1879, marking the beginning of a campaign in favour of a Single Tax—that upon Land Values. It was not a mere repetition of the Physiocrat view, but tinged with modern democratic (but not Socialist) colours. The movement still continues, and one of its results has been to turn attention to the distinction between taxes that can easily be passed on to others, and taxes (as those upon rents) that have a marked tendency to stay where they are laid; between the taxing of productive and unproductive receivers of incomes; between “earned” and “unearned” incomes; between taxes that hinder production and those that hinder it little, or not at all. Henry George laid down four excellent maxims, which naturally suggest comparison with those of Adam Smith. They are given in “Progress and Poverty,” Book VIII., Chapter III. Briefly, they are :

I. That taxes should check production as little as possible.

II. That they should be as direct as possible, cheaply collected, taking from the payers little more than what comes to the State.

III. That they should be certain.

IV. That they should bear equally, so as to put no citizen at an advantage or at a disadvantage.

He criticises Adam Smith’s first maxim, because it takes no account of differences in the size of families—a criticism now expressed in the British income tax. His four maxims are decidedly better than Adam Smith’s.

Sidgwick (1883 : “Principles of Political Economy”) and Herbert Spencer (“Ethics,” 1891) struck valiantly for the gods of their century. They both

restate the "Benefit Theory," and regard taxes as the price of benefits received from Government. But the twilight was falling upon these gods.

Professor Edgeworth took his stand upon the principle of "minimum sacrifice" ("Economic Journal," 1897). Professor Cannon declares for the twin principles of economy and equity. "The first thing to do," he says, after his direct manner, "is to find economical means of raising money. The next is to inquire if there is any ethical objection."—"Economic Journal," 1901.

This concise statement fitly introduces us to the new century in economic thought. The Benefit Theory and the Rule of Proportionalism are no longer able to count on the respect of professors. But they may count for many years yet upon the homage of followers in Lombard Street and Fleet Street.

## CHAPTER VI.

### MODERN IDEAS AND DEVELOPMENTS IN TAXATION : A SUMMARY.

LIKE the newer economics, the newer views of taxation, belong to the last fifty years, at the widest stretch. The following lists include the most significant of them, but some of the items are of older date.

#### A.—IN ECONOMIC THEORY.

I.—The abandonment of the idea of a tax as a price, and the general adoption of a correct definition of a tax.

II.—The decay of the Benefit Theory.

III.—The growing reliance on income rather than on capital and property as a measure of wealth.

IV.—The classification of incomes into those (1) from work, and (2) from property.

Mr. Tawney has worked out a scale of “ property rights ” in nine stages, moving by steps from payments for work to “ pure rent.”—“ The Sickness of an Acquisitive Society ” : Allen and Unwin, 1920 :

#### *Property :*

- (1) In payments ~~made~~ for personal services ;
- (2) In personal possessions necessary to health and comfort ;
- (3) In land and tools used by their owners ;
- (4) In copyright and patent rights owned by authors and inventors ;



- (5) In pure interest, including much agricultural rent;
- (6) In profits of luck and good fortune : “ quasi rents.” (For “ quasi rents ” see Marshall’s “ Principles of Economics ” : Macmillan);
- (7) In monopoly profits;
- (8) In urban ground rents;
- (9) In royalties.

As Mr. Tawney points out, the first four of these accompany some performance of work; the last four do not; the fifth is intermediate.

V.—The application of the Law of Diminishing Utility to incomes and to taxation.

“ Ever since Jevons explained the declining utility of successive increments of food it has been impossible for the English economist to rely much on the fact that a loaf is a loaf, whether it is crumbled in the hands of a surfeited Dives or devoured by a starving Lazarus. The same loaf is of less use to Dives, and the modern economist must recognise the fact.”—Professor Cannan : “ Theories of Production and Distribution,” IX., § 4.

VI.—The gradual abandonment of arguments about “ driving capital out of the country ” to the politicians and the Press.

VII.—The definite statement that *taxes are paid by persons*; first, as an economic dogma, to check the false arguments arising from talk about “ land ” or “ industry ” being taxed, and later, with the re-statement that taxes are only paid by persons, but that different classes of persons, e.g., landowners, may be taxed as such. But the main statement remains. Taxes are only paid by persons.

VIII.—The general acceptance of progressive or graduated scales of taxes over proportional methods, as a result of No. V. above, and also as a result of accepting some such measure as “minimum sacrifice” as a test of ability to pay.

IX.—An increasing appreciation of the unfair and “uneconomic” effects of Indirect taxes, and a steady movement towards their abandonment, on the whole, in favour of Direct taxes.

The dominance of Indirect taxes in our system covers the period from the Restoration to the middle of the nineteenth century. The old taxes upon land were replaced by the Parliament of Charles II. by taxes upon commodities, to the great advantage of the owners of land, and the loss of consumers generally. The system was developed almost to breaking point during the French wars. After Waterloo, the Parliament of the day abolished the Income Tax and imposed Corn Duties. The serious return to the sounder method of direct taxes began with the Reform Parliament after 1832.

X.—A great lessening of the fear of the older economists that taxation seriously diminishes saving. It has become plainer that heavy taxation, like a fall in the rate of interest, has a double effect on saving : it tends to increase it in some cases and to diminish it in others.

The two quotations following are typical of the attitude of the modern economist in comparison with that of his predecessor a century ago :

“Though current opinion regards a high income tax as injurious to production, there is no real proof that it is so. Some people will work less hard if they know that a quarter of their earnings will be taken

away by the State, but other people . . . will work harder, while yet others . . . will not be affected at all. It is not clear that the first of these groups will necessarily be larger than the second.—Professor Pigou : “ *Economic Journal*,” 1918, p. 139.

“ The older economists took too little account of the fact that human faculties are as important as a means of production as any other kind of capital; and we may conclude, in opposition to them, that any change in the distribution of wealth which gives more to the wage receivers and less to the capitalists is likely, other things being equal, to hasten the increase of material production, and that it will not perceptibly retard the storing-up of material wealth.” —Professor Marshall : “ *Principles of Economics*,” IV., vii., 7.

The uncertainty of taxes has more serious effects upon trade, saving and production than their “ severity.” The history of past Budgets is a history of successive prophecies of ruin. Upon each occasion, yesterday’s ruin becomes to-day’s moderation. There can be no guidance from such counsels.

## B.—IN PRACTICE, ACTUAL OR PROPOSED.

I.—The extension of the Income Tax, and its establishment as the centre of our system.

The Income Tax first appeared in our history in 1377, under the name of Poll Tax. It had an exemption limit, and was graduated from 4d. to £6 18s. 4d. per head. It appeared as a war-tax in 1512. Pitt reintroduced it, with some difficulty, in 1798. Again there was an exemption limit (£60 per year), and graduation between £60 and £200 (a very small range). There was a flat rate of 2s. in the £ on

incomes above £200. The tax was abolished from 1816 to 1843, as iniquitous. Peel reimposed it, and it "lived dangerously" from year to year. As late as Mr. Gladstone's time, it was held to be a mark of sound finance to consider the Income Tax to be, of its nature, only suitable for war-time. It was thought to be a natural reserve of taxes.

II.—Graduated or progressive scales, instead of a fixed proportional rate. This change dates, effectively, from the 1894 and 1907 Budgets.

III.—Increase of Direct and decrease of Indirect taxation.

In 1841 indirect taxes supplied over 70 per cent. of our revenue; in 1900, 50 per cent.; in 1919, 25 per cent.\* The proportions of Direct and Indirect taxes were reversed between 1841 and 1919. When the two were nearly equal, in the early years of this century, politicians discovered an "economic law" to the effect that they should "balance" each other. Economists have not at any time discovered it.

IV.—Development of exemptions and abatements; for life assurance and mortgage premiums, children, wives, dependents.

V.—The recognition, in these last changes, of the family as an economic unit.

VI.—The diminution of taxes, and more especially of rates, by State and municipal enterprises. This has received a definite check of recent years. Its future is involved in the future of Socialism generally.

VII.—The taxing of inheritances. This is in form a tax on property and capital, but in practice it is

\* Figures rounded and approximate. They vary according to the exact definition of "direct" that is taken.

paid out of income. As an effective tax it dates from 1894.

VIII.—The taxing of “unearned” incomes on a higher scale than that applied to earned incomes.

IX.—The Super Tax : an additional income tax on the largest incomes. In effect, it is an intensification of the system of graduation, applied to the largest incomes.

X.—A Tax on Luxuries. This was suggested during the war, but little resulted. The chief difficulty is that definitions of luxury vary.

XI.—The Excess Profits Tax. This came as the unscientific result of a half-hearted attempt to gain for the nation some of the wealth that “profiteers” accumulated during the war. It had one virtue : productiveness. It secured revenue for the State, but it sinned against the rule of equity (as between individuals), and also against the rule of economy, for it directly discouraged production. Further, it had the same bad effect as an indirect tax, in that a great deal of it, if not all, could be passed on to the consumer; and this, in fact occurred on a large scale.

XII.—The equalisation of rates as between different local areas. This is a reform in local finance which is far from having been completed. (There are no separate principles of local finance. The general principles of taxation apply.)

XIII.—A Local Income Tax. This demand is the outcome of a desire (1) to secure more revenue for Local Authorities, and (2) to free the Authorities to a considerable extent from central control. It also represents, in part, a movement away from the “benefit theory,” which is largely the basis of the

local rating system. See "The History of Local Rates in England," E. Cannan (P. S. King & Co.) and "Taxes, Rates, and Local Income Tax," (Fabian Tract No. 194.) An immediate replacement of the present local rates, however, by an income tax, would benefit the owners of land and property by many millions of pounds. A great deal of what is now paid in rates would be added to rents. (See the Tract 194 just cited, for a fuller explanation.)

The objects of the demand could probably be secured more practically by one and not two assessments of income tax, together with grants from the Central to the Local Authorities. The question of greater or less local autonomy could be fought on its own merits. Possibly the most important change would be for Local Authorities to be free to undertake any duties except those in a definite list forbidden them by Parliament. At present they can only do what they have been specially empowered to do. Quite recently (1920) the laundry companies of London were able to prevent the people of a London borough from getting their clothes washed by their own municipal washhouse.

A vigorous and healthy local government is so valuable that it should be secured by the best means available. All life is local life. Centralisation is a convenience, and should never become an aim. Whether a local income tax is a necessary part of full local activity, or whether it is at least important enough to be worth the surmounting of its difficulties, is one of the questions that have not yet been sufficiently discussed.

XIV.—The definite relationship of tax-paying to a sense of citizenship. The true antithesis of justice in

this respect is privilege (as with tax and price). There should be no privileged class in taxation, nor should there be a class that is given to believe itself privileged. The exemption limit of income tax, our indirect taxes, and the custom of including rates in rent, give many working-class people a demoralising belief that they are privileged by not being taxed. But, in fact, they are heavily taxed. Mr. Harold Cox calculated that in 1906 an agricultural labourer was taxed at the rate of 8d. in the pound, income tax basis. Taxes should not only be fixed, certain and convenient : they should be known.

XV.—The Taxation of Land Values, and “ Betterment.” The proposal to tax land values is centuries old, in one form or another. It was given fresh vigour in this country by the publication of J. S. Mill’s “ Political Economy ” in 1848, and again by the publication of Henry George’s “ Progress and Poverty ” in 1880, two books that had in common a strong human appeal, a readable style, and (in relation to taxing rents) a case that rested on an indictment of an unsocial privilege. “ The ordinary progress of a society which increases in wealth,” wrote Mill, “ is at all times tending to augment the incomes of landlords ; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were, in their sleep, without working, risking or economising. What claim have they, on the general principles of social justice, to this accession of riches ? ”—“ Political Economy,” V., ii., 5. A modern economist would take exception to Mill’s phrase about a “ greater proportion ” going to rent. (See Cannan’s “ Theories

of Production and Distribution," VIII., 1.) The statement would be truer of profits as a whole than of rent. But the rest of Mill's indictment stands. His proposal was that future increases of land values should go to the society that is their only creator—the whole or in part. He pointed out the necessary first step, "a valuation of all the land in the country."

The campaign of Mr. Henry George was concerned with rents as a whole, and not with future increments only. It is a campaign still continuing. The next important move came in 1909, and was centred round Mr. Lloyd George's speech at Limehouse, July 30, 1909. He cited swamps on the banks of the Thames that had risen in value from £2 or £3 per acre in rent to £2,000 or £8,000 per acre, as a result of the growth of activity in London, unrelated to the (economic) activities of the owners. A Land Values campaign was planned for 1914, but the war brought delay, and after the war the work began by a Land Valuation was stopped (1920).

The economic case for the social claim to socially produced wealth remains unshakeable; but for those who oppose reforms, delay is not merely the only victory possible: it is a sufficient victory.

Valuation may be for rating or for sale. In the speech just cited, Mr. Lloyd George mentioned land at Greenock, purchased by the State for £27,225, which was rated at £11 2s. 0d. per year. It is plain that here is a double valuation, not more honest than a double set of weights would be. If the State insisted on one valuation for all purposes, it could fairly offer the choice between an adequate rating or sale to the State on the valuation fixed. The owners of land



might be kept to fix their own valuation, so that the State or Local Authority could levy according to that valuation, or alternatively, could purchase.

The "Betterment" movement was an urban development of the eighties. Improvements made by the State or Local Authority often added automatically to the value of neighbouring private property, and this was claimed as being socially created. The movement became merged in the general Land Values campaign.

Mill's argument for a State claim to future increments of land values avoids one difficulty connected with the principle of justice. If A invests £10,000 in land, and B in brewery shares, each being merely a rent or dividend receiver, by what scale of equity may the State claim a 10 per cent. increase of A's rents, and not a 10 per cent. increase of B's dividends? By the argument, the increase is utterly unrelated to effort, on the part of B as of A. Both would come under an unearned income tax scale, at the same rates.

XVI.—A Levy on Capital.

## CHAPTER VII.

### CHANGES IN THEORY AND PRACTICE.

WHETHER or not all truth be relative, most of our specific truths are relative. We can say, with regard to taxation as to other matters, that orthodoxies, by their nature, do not change; or that all orthodoxies, however faithful unto death, yet slowly and incessantly do change, until death ends all change, since life is expressed in changes; or that to-day's heterodoxy is to-morrow's orthodoxy; or that orthodoxies and heterodoxies fuse into each other. There is sufficient truth in these old sayings to justify each of them, taken separately. Taken together, they prune and modify each other.

With regard to the theory of taxation, the antagonists of the eighteenth—nineteenth centuries find themselves, in the twentieth, less sharply opposed. Their common ground is larger, their area of conflict smaller—though the conflict itself may be no less sharp. And, as in the world of religion and politics at large, the change comes chiefly because certain fortified positions of the old orthodoxy, once stoutly defended, are now abandoned to the assailants, overrun and possessed, except for enclaves of no great value, still held by sentimental supporters of lost causes.

One of the most powerful agents of change in the general theory of taxation has been the emergence of a fixed and accepted definition: that a tax is not a price, but has two marks distinguishing it from a price

and stamping it as a tax : (1) its compulsory nature, (2) the absence of any guaranteed and fixed return or *quid pro quo*. This definition inflicts an incurable hurt on the "benefit" theory of taxation. It would be untrue to say that the definition has killed the benefit theory. That is only true in the world of logic. But men live chiefly in the world of emotion, desires, interests; and in that world the theory can still make a brave show. But it is not logically possible to maintain that it is in the nature of a tax that the benefit received from it is insecure and unfixed in quality and quantity, and to maintain also that people should pay taxes in proportion to the benefits they receive from government. A tax represents an individual as well as a social act; but its two characteristics, outlined above, are both of them more social than individual in significance.

The next change is less definite and complete, less logical and more psychological—the change of which the contest between the proportional and the progressive systems of taxing is but one phase, though the most obvious phase in the two centuries of contest. The decision was made more by the statesman than by the orthodox economist, who followed, with misgivings, the path which not he, but his opponents, had pointed out to needy Chancellors of the Exchequer. In this country, we have seen our direct taxes changed, within thirty years, from a proportional to a progressive system. The bulk of the economists of standing throughout the preceding century, however, declared for proportionalism, and against graduated or progressive systems. It is not possible to imagine their successors as merely accepting a *fait accompli* in defiance of their own science.

There must have been something in the laws of economics that justified the abandonment of strict proportionalism, something that had not been sufficiently applied to the principles of finance. There was, in fact : the Law of Diminishing Utility. But the older economists may still further be excused, inasmuch as the law was not yet disentangled from the mass of economic data, dogma and speculation which excited and interested the theorists of the new industrial era so powerfully, and so naturally. They shared the prejudices of their age, no doubt, as we do those of ours. They hoped too much from unchecked private enterprise; they rejoiced in economic "freedom," even when the occasion of rejoicing was only "a free fox in a free henroost"; they lived in the shadow of the Revolution of 1789, and then of the Revolutions of 1848; they respected—often overmuch—the powers that be, and the money-powers then coming into being. But their intellectual honesty was as high as could be asked of them, and one of the most famous of their critics, Karl Marx, built his system and criticism upon the theoretic platform they had cleared.

On the other hand, the Law of Diminishing Utility was implicit in what they had already systematised. Further, it lies to hand for the unspecialised man to use. They might therefore have applied it to this question. Professor Marshall states the law in his "Principles" thus : "The total utility of a thing to anyone (that is, the total pleasure or other benefit it yields him) increases with every increase of his stock of it, but not as fast as his stock increases" (III., iii., 1). For our own application here, we may take as our unit £50 a year income, that being, in

this year 1921, as low a figure for the support of an individual adult as anyone would care to suggest. Smith, we will say, has this income, and its value to him is life, subsistence itself, if but a bare subsistence. Add now another £50 to the first. The second £50 will still have a great value in the difference of life it will secure : but it is not, as was the first, the barrier between life and ruin. Conceive us adding £50 until we have Smith in possession of £1,000 a year. Another £50 will make very little difference to Smith's life—the second and third fifties made great differences. Each addition is of less value than the addition that went before it. Now a system of proportional taxation (apart from any exemptions) taxes each £50 or £100 alike, in whosoever's hands they may be. But the value of any one £50 or £100 of income is only to be held the equivalent of another £50 or £100 at the same point on the scale. Smith's fourth £100 is an economic equivalent to Brown's fourth £100, but not to his own or Brown's first or tenth £100.

It would follow from this that we should conceive of Smith's income, say now £1,000, as a series of ten £100, or a hundred £50, or one thousand £1 amounts, set in an ascending or descending scale ; and that we should tax the later (higher) additions at increasing rates. For purposes of explication, we may set out an imaginary scale, dealing only with units of £100 for simplicity. We may omit, also, all exemptions. In our income tax scales we are accustomed to exemptions of small incomes, but if we take taxes as a whole, there are no exemptions, practically, except where there are no indirect taxes. The working-class family which pays no income tax, and no direct rates, is by

no means free from the one or the other. As a training in citizenship, it would be infinitely better if every person and family paid both rates and taxes directly, knew what they were paying, and lost the demoralising belief (largely illusory) that they were excused the duties and obligations of citizenship. They are not excused; they should not be excused; and no good to them or others comes of them thinking themselves excused. It is the easy vice of an aristocracy or a plutocracy to be or seem charitable: it gives a pleasant emotion of superiority, moral and social; but the harder virtue of justice is a securer foundation for a commonwealth.

The figures of the table are illustrative only. They are built on the simple sequence of 0, 1, 2, 8—and £100, £200, £300.

*Taxation by Units of Income.*

1st	£100,	taxed at	1	per cent.	Tax, £1.
2nd	„	„	2	„	„ £2.
3rd	„	„	3	„	„ £3.
4th	„	„	4	„	„ £4.
5th	„	„	5	„	„ £5.
6th	„	„	6	„	„ £6.
7th	„	„	7	„	„ £7.
8th	„	„	8	„	„ £8.
9th	„	„	9	„	„ £9.
10th	„	„	10	„	„ £10.

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Taxes paid on a total income  
of £1,000 ..... £55

The natural questions that would arise from considering such a scale have an immediate bearing on

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our theme. Those who are not satisfied by the total result (£55 tax on an income of £1,000) will be likely to suggest other steps in the percentages. We have said that the figures are illustrative only; but such a proviso never prevents people from arguing upon definite figures, once they are set down. Scales of  $\frac{1}{2}$ , 1,  $1\frac{1}{2}$  . . . or of 2, 3, 4 . . . of 2, 4, 6 . . . and so forth, might be suggested. Our own income tax and estate duty scales have varied very widely.

<i>Estate Duties.</i>			
	1900	1910	1920
On estates of			
£1,000+	3 p.c. ...	3 p.c. ...	3 p.c.
£10,000+	4 p.c. ...	4 p.c. ...	4 p.c.
£100,000+	6 p.c. ...	6 p.c. ...	14 p.c.
£1,000,000+	8 p.c. ...	10 p.c. ...	28 p.c.

Now, of these various percentages, and of all the possible percentage scales that could be drawn up, whether for income tax, estate duty, or taxes in general, which is the just scale? To this there is no satisfactory answer. Attempts have been made to find a satisfactory formula for graduating incomes. (See the "Statistical Journal," 1914, and the "Quarterly Journal of Economics," February, 1914.) But the actual scales vary according to the needs of budgetting Chancellors, the relative numbers of people with incomes of certain sizes, the pressure of political groups and interests; not, however, according to any scientific laws.

Here we have a very potent reason for the reluctance of the older economists to approve of progressive

or graduated scales of taxation. With a proportional scale the problem was relatively simple. Two per cent., three per cent., or ten per cent. all round had an air of rough justice ; and when the smallest incomes were exempted altogether, even such attitudes of contentment as that expressed by Jevon's words, given above, are at least understandable.

But a static world is impossible, even in statistics. No Chancellor of the Exchequer thinks of harking back to proportionalism. Abatements, differentiations between earned and unearned incomes (first introduced into our system by Mr. Asquith in 1907), allowances for wives, children, widowers' house-keepers, dependent relatives, make the income tax more and more elaborate, even as they relate it more accurately to varying cases, varying abilities to pay. It is a road along which we are travelling fast, and our rules are empirical rather than scientific; not of choice, but of necessity. It is only a dozen years back since the "*Daily Mail Year Book* " asked : " Is a graduated income tax possible ? " and pointed out that a graduation of seven stages, from 0 to 12 pence in the pound (incomes from below £160 to over £700) already existed in our income tax. But that was only a shadow of the conscious graduation of to-day.

Is there, then, no logical stopping place ? Logically, there is none, as Mr. Bernard Shaw has pointed out, short of a system of absolutely equal incomes ; for graduation definitely tends towards equalisation of incomes, and if it be only steep enough it can at least equalise downwards towards a fixed maximum. The proposal was definitely made, during the war, that the State, for war purposes, should take the excess of all incomes over £1,000 a year. Since we con-



scripted men's lives, it was asked, why flinch at the lesser demand on men's incomes? For the most part, the question was accepted only in its rhetorical sense, and was not answered. But conceivably an answer might be very necessary upon another such occasion, for the questioners might be too numerous to be ignored.

We may take it, then, that in the twentieth century

(a) A tax can no longer be considered as a price, in any sense, of "so much for so much";

(b) The benefit theory has lost, by this change (a), its logical foundation;

(c) With these changes, the case for proportionalism disappears;

(d) The application of the Law of Diminishing Utility furnishes an economic justification for progressive as against proportional taxation.

There is a more significant change than any of these, one that effects the theoretical foundations of the last century: the abandonment of the view that taxation should leave the payers in the same relative position as it found them. If it had been possible to establish this dogma of taxation, the case for the nineteenth century view of the relations between individual and national life would have been made secure for an indefinite time. But the dogma has not established itself. Even in the writings of the older economists, it appears as an axiom of economics and politics, more or less forcibly stated upon this occasion or that, but never woven into the definite principles of economics or of political science. It did not follow the usual life-course of a principle, through stages of

challenge, discussion, to final proof and disproof; but fell into the obscurity of the neglected. Yet, in an age when the State already claims 40 per cent. of a very large estate (over two millions) and 35 per cent. of the estate of every millionaire (Finance Act of 1919), the dogma is already discredited in practice.

It is no less discredited in theory. On the one hand, the more modern economists have made no effort to establish or to secure it. On the other, they have made pronouncements that flatly contradict it. The "good," in economics, is a plentiful production—and—distribution of goods and services to satisfy human wants; and a more equal distribution will tend to better production. "Nothing in economics is more certain than that the best distribution—the distribution which makes a given amount of produce go furthest—is distribution according to need."—Cannan: "Economic Journal," 1908. The close connection between the distribution and the production of wealth, the effect of one upon the other, was little considered by the older economists. The change has been definitely towards the view that a more equal distribution will tend towards better production: that is, a greater production of goods that are of general economic value.

With this must be taken the question: Is taxation the right instrument for securing a better distribution of wealth? That is a political rather than an economic question. In practice, the question is now indirectly being answered by such taxes as the Estate Duty, which in effect materially alters the distribution of wealth whenever a very rich man dies. This may be a state of affairs quite evil in itself, only to be accepted as an unavoidable and perhaps temporary

evil, forced on us by our necessities. This was, a century ago, a common view of the income tax. Whatever the truth may be, we should try to make it clear to ourselves. If we are doing wrong in levying these taxes, we had better say so, and hope for a time when we can afford to be just, and to leave the millionaire's son his full million. But if the opposite view is the truer one—and modern economics more than suggests that it is—then here also let us make clear the truth to ourselves. Then we can ask quite definitely what are the economic or ethical or political reasons why taxation is the wrong instrument for forming a better scheme of distribution of wealth than the present scheme. Expressions of vague apprehension have naturally been plentiful. It would be more useful to have a terse and definite statement of the case in favour of “taxation for revenue only,” apart from any ulterior purpose, and against using taxation for any such purpose as altering the distribution of wealth.\* Such a statement, if it were sufficiently accurate and weighty, might re-establish the old doctrine that taxation should “leave the taxpayers relatively as it finds them,” in a modern restatement. It should be worth the while of a supporter of the *status quo* to undertake this work. But a mere statement of belief will hardly be of much value. The starting point must be a knowledge of the findings of modern economics.

There is a wider field here than that of taxation. We are touching upon the general laws of social life. In Professor Maciver's “Community” (Macmillan : 1917 and 1920) there is a statement or law of com-

\*“Taxation for revenue only” is discussed in Prof. Marshall's “After War Problems” and in Sir J. Stamp's “Fundamental Principles of Taxation.” Neither writer has much respect for the cry.

munity life in these terms : “ Each form of association has its distinctive place and character, which cannot without social loss be usurped by any other association.” This law may or may not become accepted in these or similar terms ; but some such basis must be the starting-point of any argument endeavouring to establish taxation as being an unfit instrument for greater equalisation. No such argument, of any weight or value, has yet appeared. The range of the whole subject, now, is wide enough. It is a part of the whole history of civilisation. The human societies, coming out of the Stone Ages, built up after the natural manner (that is, first unconsciously and that with conscious effort) societies and institutions related to property, work, government, religion, class, caste, liberty, authority. The natural conservatism of the average human being constantly tended to harden each of the definite schemes of life that arose into a thickening shell, made more or less sacred by custom. The shells were not equally inelastic. Some could yield to the pressure of the living organism within, and take new shapes ; some cracked, and were reset ; some were dissolved by the acids of the living organism ; some were broken by irretrievable rents. Like the whole process of world-evolution, of which it is a part, this proceeds, on the whole view, as a slow changing. But, as in the course of world-evolution generally, it is marked by minor cataclysms, by crises of sudden change. We are generally agreed that the events of 1914—1918 began such a crisis of change in human history, and that the full effects are by no means worked out. How are we, in this nation, likely to meet this crisis, generally, and in the terms of our subject, with

regard to taxation? In more definite terms : Can our present ideas, and our present practice and system of taxation, with a little extension or alteration here and there, carry the nation safely over its financial and social crisis? That it can is the natural and fundamental assumption of an orthodox Government; else it would not be orthodox. It is also, in the main, the view of the present writer, if the "extension or alteration" mentioned above (1) is made according to the findings of the economic science of this century, and not of the last; and (2) is carried, for the next ten years, to a point that is sixty or a hundred per cent. above that now obtaining in taxation. A fuller explanation of what is implied here is given in a later chapter.

Meanwhile, it might be said, and will be said by some, that more than "a little extension" is implied by this suggestion. This would be a fair objection, and it raises the question : Does our knowledge of psychology, sociology, government, economics, and taxation extend so far as to enable us to do something rather more than add a little to our present practice?

The facts upon which an orthodoxy may count are these : (1) This nation has been trained in centuries of "government by consent," and is not composed of very inflammable material; (2) The people are, after all, as well off as those of other nations, better than those of most nations; (3) Our system of taxation, as of government generally, is not rigid. It develops, changes, grows, like any healthy organism.

This is an excellent case; and it could be made fuller and more complete. Instead of building up a contra-case, let us glance at the general position. It is likely to be a more useful method.

(i) A very large and expanding revenue is needed, to meet the great total of debt charges, our pledges and commitments, and the growing demands for State expenditure on education, health, and the social conveniences of life; and also for defence.

(ii) Past policy has left the State stripped of any State properties worth counting, and has forbidden the accumulation of State property, except of a kind that produced no revenue. This resulted, quite naturally, from the economic beliefs of the eighteenth—nineteenth centuries, i.e., a reaction from mercantalism, and from government by uninformed Court parties and untrained officials appointed by patronage, into an excessive belief in the all-sufficing virtues of private enterprise. It is not yet generally realised how far those beliefs carried us. Here is one significant if minor example. In a debate in the Commons, April, 1912, on a motion of Mr. Lloyd George, Mr. Higham said :

“ We found, year after year, that the price of outside rifles (i.e., those made by private firms) was £1 per rifle more than the cost of their production at Enfield (a State factory), and that in one year the cost was 26s. to 28s. more, and that in that particular year the Government bought 140,000 rifles, which meant a waste of £200,000, and left machinery standing idle at Enfield. . . . I found that these outside factories were employing all their machinery in making those rifles. Where does the reserve, then, come in time of war, if these factories are turning out all the rifles they can in time of peace? They cannot produce more in time of war.”

The defence of the policy was that private factories should be in effect subsidised, that they might be

ready as against war demands. But when war came, private enterprise failed us, from cartridges to ships. We had to set up in haste, and so with waste, State producing machinery of all kinds.

Private enterprise and public enterprise have a field of operation in common, and have also separate fields of operation, in which each is distinctly superior to the other. We have experimented very generously in private enterprise. We have had certain benefits. We have had to pay a certain price. Part of that price (not the chief, but the part with which we are now concerned) is that in our great need of State revenue we find our State without income-producing property, and must therefore turn to taxation. The State may say to the owners of private property of all kinds : " I am dispossessed, and the property of the nation is in your hands. A great social-national income is needed. It cannot come from State property, for there is none. It must come from you."

(iii) Economic theory, and the verdict of the majority of living economists, favours (a) progressive taxation, (b) the heavier taxation of unearned incomes, " unproductive surpluses " and rent-forms of income; and it grows more and more of opinion that very wealthy men are neither necessary nor harmless in the world of economics or of politics.

(iv) Although delay, and still further delay, is always possible, either in reality or in seeming (and delay is the only, but sufficient, victory of the reactionary or static type of man) yet it has its dangers. It is not always deadly to sit upon a safety valve. The adventure has often been carried through. But the pressure-gauge may not be a correct guide, or there may be a flaw in the boiler-metal. The French

aristocracy sat too long ; and there are other examples. Counsels of prudence here become entangled with the cold precepts of economic and financial principles. But they all form parts of the human life we live. We have sufficient exercise in keeping them separate, thanks to our system (a necessary and excellent one) of the separate study of economics, morals, law, ethics, apart from the rule-of-thumb of everyday life. These things are violently brought together when revolutions occur. A more frequent bringing of them together in our speculations might avoid some human violences.





## CHAPTER VIII.

### THE PRINCIPLES OF TAXATION : JUSTICE.

THE principles of taxation have suffered a serious check in their development and investigation from their early crystallisation by Adam Smith. The tendency to state his four maxims (or canons, as they were afterwards named), with some added commentary or criticism, has been somewhat too strongly marked. The widespread acceptance of these four maxims was a very great gain. The grosser blunders of statesmen in matters of finance were checked and diminished by the existence of a fairly general knowledge of these principles. Moreau de Beaumont had formulated them earlier, it is true, but through Adam Smith's book they became generally known. It very commonly happens, when a clear advance in knowledge has been made, that the very consolidation of the position is a hindrance to a further advance. Therefore all Utopias should be built with an open gateway to the East of the mind, where to-morrow is always dawning.

Many fresh classifications, nevertheless, have been made. Altmann suggests this arrangement :

#### *Principles.*

1. Political-financial.
2. Economic.
  - (a) tax sources.
  - (b) assessment ; shifting.

## 3. Ethical.

(a) generality.

(b) measure and proportion.

—(“ Finanzwissenschaft,” III., 2, 1. 1910.)

Wagner, from whom no doubt Altmann took the form of his classification, had drafted a set of nine rules, in four groups, which may be summarised thus :

*Principles.*

## I. Of Political Finance.

1. Sufficiency (i.e., Productivity).

2. Adjustability (or Elasticity; the word is *Beweglichkeit*).

## II. Economic.

3. Right Sources (e.g., from income or property).

4. Right Kinds (e.g., in relation to taxes that can or cannot be shifted on to others : incidence).

## III. Ethical.

5. Universality.

6. Proportionateness (fairness, equity).

## IV. Administrative.

7. Certainty.

8. Convenience.

9. Collection at smallest possible cost.

Now the significance and importance of arrangements of this kind, in contrast with Adam Smith's, is that the different nature of the various rules is brought out, and this in itself enables us to put in some order our belief in the greater or less importance

of this rule or that : a matter in which we are still far from any general agreement. The "four maxims," however, have the merit of simplicity. In such a work as the present, which does not aim at being a text-book, we are free from any pretences of finality, and may use our freedom to attempt a fusion of the simple and the more scientific classifications. We may abandon, also, any attempt at an order of precedence, leaving that to appear in its proper position (that is, largely as a personal preference) in the discussion of principles in this and the following chapter.

*A Classification of the Principles of Taxation.*

- I. Administrative.
  1. Productivity.
  2. Certainty.
  3. Uniformity, Convenience, and Generality.
- II. Ethical.
  4. Justice or Equity.
- III. Political.
  5. Conscious Citizenship.
- IV. Economic.
  6. Economy, in the main erects upon the production and distribution of wealth ; and also in securing a close equality between
    - (a) the taxes levied,
    - (b) the amounts paid by the persons levied upon,
    - (c) the amounts received by the Treasury.

These, and in particular the fourth and sixth, need some exposition. The fifth has been implied rather than stated. It is inserted here because a mere implication is easily forgotten. In the past, this aspect of taxation, as well as the whole social significance of taxation, has been too much ignored, and this in turn has permitted thoroughly unsound views, such as those of Thiers, quoted earlier, to be stated gravely and accepted seriously.

The Administrative Principles are concerned with the efficient machinery of the organisation of human communities. But so also is the second part of the Economic Principle. The Ethical Principle is psychological in its relations. It concerns the ideals of men, their conceptions of right and wrong, their beliefs, dogmas, prejudices. It touches upon religious feeling. The Political Principle is somewhat compounded of the other three. It derives its force and its strongest arguments from the Ethical Principle. The Economic Principle is the readiest test and proof, the best available of the four for scientific methods, the furthest removed from the winds of passion.

At the outset, then, there is plain overlapping here, and therefore an imperfect classification. All classifications, however, are for a limited purpose; and this is sufficiently exact for the purpose now in view. In the course of time, better classifications will emerge. For the present, we may be content with a partial clearing of the confusion of politics, ethics, and economics that obtains in life as in theories.

In this chapter we shall consider the first two of the four groups, dwelling chiefly upon the principle of Justice (II., 4, above). The principle of Economy we shall leave to another chapter.

# I. *The Administrative Principles.*

The first group need not delay us long. Productivity we have already dealt with. The need for taxes being fixed and certain, so that each person may know what is the legal demand upon him, needs now no argument. If we could budget ahead for a term of years, so that we could all calculate our taxes until, say, 1930, it would be a distinct gain to us; nor is something of the kind altogether impossible. And that taxes should be arranged to make the time and manner of payment as convenient as possible to the payers may also be left at the mere statement of it.

The principle of "Generality" calls for some elucidation. If it be taken in the sense that every citizen, as citizen, should pay taxes, then, so long as taxes are levied, they should be as "general" as full citizenship itself. Representation without taxation is demoralising. But this does not imply any taxing of a reasonable minimum standard of existence. If the State cannot prevent some of its members falling below the minimum standard of life of the time and place (unless by their own wilfulness) then the State cannot claim to tax those members at all. The argument against taxing the very poor is, always the same: they cannot be taxed, except at a cost (to the community) exceeding what can be got from them.

The principle of "Generality" may take such a form as was expressed some years ago by the formula, "Broaden the basis of taxation." Now there is no virtue in a "broad" or a "narrow" basis of taxation, other than the relation of tax-paying to citizenship. The principles of taxation cannot be expressed in such terms. The phrase is only fit for unintelligent newspaper propaganda, though many politicians, and

even a few inadvertent economists, have repeated it. The phrase is one of a group, like "the balance between direct and indirect taxes" and "making the foreigner pay." These are formulas that flourish in proportion as they are kept out of the region of exact economic inquiry. They dissolve, upon analysis, into something either foolish or insignificant.

## *II.—The Ethical Principle: Justice or Equity.*

As soon as we come to the principle of justice, equity, "fair play," we are in the world of right and wrong, good and evil; the world of emotions, sublimated instincts, feelings, ideals; the world of prejudices, beliefs, creeds. The range that stretches here runs up and down rather than right and left. Above, it passes into the glowing gold of altruism, the living and growing metal whose heat still keeps human hope alive, whose light is the only spear that can pierce the fog of the future, whose darkening, even whose temporary flickering, as after 1914, makes us for a while despair of the future of mankind. Below is mere unrefined leaden egoism: swallowing light, not giving it; covetous of the gifts of past and present alike; indifferent to any future beyond its own day of enjoyment. And in the alloys of gold and lead between these two, alloys with the mixtures of a thousand inheritances, most of us find our own scales of judgments. We have such fantastic possibilities of occasional soarings into the golden light of altruism, when some strong ideal lends us wings, such sinkings into the leaden deeps, that all figures of speech are inadequate to picture us; and no fixed or static vision of us is true. But our extremes create an average; and the normal man is normal because

in the general tenour of his life "the elements are mixed in him."

This is a world where we are to measure the just, the unjust, the partially just, by some test or standard of justice : and yet we cannot agree upon a common standard. Justice has been claimed for proportionalism and for progression in taxation ; for a single tax upon land, or upon income ; for taxing unproductive surpluses ; for taxing upon a broad basis, or a narrow ; for considering the total of taxes paid, and also for considering chiefly the total remaining to the individual who has paid his tax ; for direct taxes ; for indirect ; for a "just balance" between the two ; for a measurement according to benefit received ; for the principle of least sacrifice ; for a purely voluntary scheme of taxation ; for sacred codes of law, claimed as overriding all human codes. Among so many claimants, what can we do ? Since the measures do not agree, by what shall we measure the measures ?

First, let us honestly face the main fact that there is no fixed, agreed, accepted measure or standard of justice available ; next, that we are all of us prejudiced, from the rigidly righteous, "the just," whose prejudices are too vast for them to see, for they fill their world, to the great laughing humorist—humanists of the world ; who do not condemn their fellows easily, because they have looked into their own souls, and seen themselves, sometimes indeed swelling beyond the stars, but sometimes as small and common as blades of grass or the gnats that hover over them. We are all of us prejudiced : that must stand. All we can do is to make ourselves well aware of our prejudices, to fish them out from the unconscious



deeps of the mind, and set them on the surface of that ocean, to be bathed in a little genial sunlight. They will sink again, of course, and soon : but the sunlight kills something of the bitter poison that grows in them in the darkness and loneliness of the deeps. The lonely life in the darkness is unsocial, unhuman, egoist, and hence, as the Greeks had it, idiot.

We have used chiefly, so far, the commoner word "justice" rather than "equity." But it is time to choose our words more strictly in so difficult a quest. Our true concern, in exact language, is with equity more than with justice. Equity is the code of moral human law which the human race is formulating through the centuries of its growth; a living thing, always changing in form, yet always one unchanging thing (if the whole universe is not a mad joke of a super-cynic), striving towards expression. Men have essayed expressing it in divine codes, Mosaic and other, in poem, heroic epic, legend, parable; in declarations of "unwritten law"; in sacred books and sacred kings; in canons, prophecy, and exegesis; in infallible pontificates; in the reverence of authority. They have sought to fix it, but it will not be fixed. They seek to make static what is of its nature living and therefore dynamic. They seek revelation in the past; but it is the future that reveals.

But this age-long desire to describe exactly what is finally true and finally good, proves at least that there is in men's minds a belief that a final standard is worth searching for. . . . "That may be strict justice," we say of some iron judgment, "but it is not right." We have cast a glance higher in our scale, where the marks shine in the golden light.

Now this higher scale, which transcends the written codes of justice (law), includes equity. Justice lives in the written law; equity in the wordlessness of our minds, or, as we say, of our hearts. Justice concerns itself chiefly with property; equity, with the values of human life. Justice is for individual men in the societies of men; equity for the human race. "Justice," says Crabb ("English Synonyms") "is exclusive, it assigns to everyone his own; it preserves the subsisting inequality between men; equity is communicative; it seeks to equalise the condition of men by a fair distribution." (Here at once is the contest between the proportionalists and the progressivists, the preservers of the *status quo* and the changers of it, set out in the balanced terms of a dictionary-maker.)

Words change. Men can make systems of equity inequitable. Already the ordinary man is using the words 'equity' and 'justice' almost indifferently. That does not matter, if the pictures in our minds are clear. The principles of justice or equity get themselves expressed in codes, sacred, moral, legal, national, international, local. None of these codes is final, though some are so acclaimed. They attempt to mark out a measure for human judgments between the gold and the lead. They have been oftenest scored on the alloys between—we might here more aptly say on the cold iron between—from before the ferocity of the Roman Twelve Tables to beyond the lesser ferocity of the Penal Laws of to-day. And we are chiefly content to live on, and to pass life on, because we believe that the measures are moving, if but slowly, towards the golden light.

Austin, in his "Lectures on Jurisprudence," shows something of this fusing of "equity" and "justice," but he gets his meaning clear, which is chiefly what matters. In one place, he speaks of five senses of the word "equity"; in another he takes three uses of the word "justice"; and this latter is the more useful to us. His account distinguishes three measures of judgment :

(1) The perfect measure. This is what some have thought to be already expressed in some sacred code, above all human laws. The best example we have of such a measure is the Golden Rule of the New Testament, of Hillel, of Epictetus; and earlier, of Confucius, Socrates, and many great moralists.

(2) "General Utility." This rendering of Austin is of especial interest to us, for it effects a bridge between the principles of Equity and Economy in taxation. Austin's account is that "just" or "justice" means conformity with a given law or standard. But positive law, which is "just" when tested by its own standard, may be held to be unjust by the standard of positive morality, and this, in turn, may be held to be unjust by the standard of "the law of God." When, by "the law of God," a positive human rule is styled unjust, he says, the meaning of "justice" is "more nearly equivalent to general utility. . . . And hence it arises that when we style an action just or unjust, we not uncommonly mean that it is generally useful or pernicious." In fine, as with all social laws, the great test is the common benefit.

(3) "The Law of God." Austin seems to conceive this as only to be dealt with in terms of public or

general utility, as above. ("Lectures on Jurisprudence," VI., Note 5.)

But there has been no finer or truer definition of justice than Shelley's :

"This, and no other, is justice. To consider, under all the circumstances and consequences of a particular case, how the greatest quantity and purest quality of happiness will ensue from any action, is to be just, and there is no other justice. The distinction between justice and mercy was first imagined in the courts of tyranny."—"Essay on Christianity."

Our position, so far, in relation to the principle of justice in taxation, is conditioned by these facts :

(1) The human standard of justice is in the living mind, and in the instincts and emotions of the mind not less than in the reason, but rather more.

(2) Therefore the standard varies with the time, the age, the general social development of any particular human group; and also with that of the individual. It is swayed and moved by individual and group interests and prejudices. But nevertheless, it represents an incurable human belief that justice is not a changing dream, but a discoverable reality.

Now if we put aside the quest after final ideal justice, and ask ourselves how far we can define a standard for to-day and to-morrow, can we arrive at anything at all? We must be quite clear whether it is really a standard for to-day and to-morrow that we desire, and not the standard of to-day and yesterday. For in these matters, men fall chiefly into two groups, that may fairly be defined by these phrases. Mr. Trotter makes a similar division of men into what he calls "resistive" and "unstable" types.

("Instincts of the Herd in Peace and War.") Of these, he conceives the stable, conservative, resistive type to be the normal one in the human present and past; while he thinks the future will probably see a decline in the numbers and importance of this type, although it is still "in a numerical majority in society." "Intellectually unquestionably of inferior value," he says of the resistive type of mind, "there is good reason to suppose that in mere numbers it has already passed its zenith." But it is still, as it has been, dominant. "Amongst the first-class Powers to-day (1915) the mentally stable (i.e., the resistive type) are still the directing class, and their characteristic tone is discernible in national attitudes and religions, and in national morality. It is this possession of the power of directing national opinion by a class which is in essence relatively insensitive towards new combinations of experience; this persistence of a mental type which may have been adequate in the simpler past, into a world where environments are daily becoming more complex—it is this survival, so to say, of the waggoner upon the footplate of the express engine which has made the modern history of nations a series of such breathless adventures and hair-breadth escapes."

We need not take this division quite rigidly. We are not to imagine all men definitely and absolutely set in one type or the other, and similar to everyone in his own group in his degree of stability or instability, woodenness or imaginativeness. Rather should we imagine men in a thousand groups, each group represented by a dot, and the whole mass of dots, let us say, pear-shaped. Those whose position is nearest the stalk are the most mobile-minded. The

mass of men, however, are between the base and the centre.

But the broad classification runs through human history. It has attracted the attention of many writers and inquirers. It marks out two groups of prejudices or predispositions, natural to two types of men; types so well-marked that most men belong fairly distinctly to one or the other. And this division is not one of class, caste, or education, though it is greatly modified or intensified by these forces of environment. It is modified still more, perhaps, by differences of sex, or of that complex of guesses that we call race.

There is a somewhat similar classification of two great types of mind given by Dr. Bridger in his "Minds in Distress" (Methuen, 1913). For these are types of mind rather than types of men.

Dr. Bridger calls them the masculine and feminine types—unfortunate names in one respect, for, as he says, neither type is confined to one sex. But the types of mind are distinct, in health as "in distress," and the difference is marked by the fact that when the normal balance is upset, the "masculine" mind falls into neurasthenia, in which an obsession becomes the platform of a thoroughly logical and "practical" argument which to outsiders is a plain delusion; whilst the "feminine" mind, when the balance is upset, becomes the centre of an emotion-storm: this is hysteria.

Mr. Wells, again, has outlined a very similar division in the story, "The Land Ironclads," which became famous as a prophecy made in 1908 and realised in the Tanks of the Great War. His sentimental, patriotic riflemen are "resistive" to the new in warfare as in life generally. Their townsmen foes,

the "slender young men in blue pyjamas," are somewhat like the "unstables" of Mr. Trotter ("unstatic" would more nearly express them), and the "feminine mind-type" of Dr. Bridger.

Now we may take it for granted, broadly, that as between these two types there is no likelihood of any agreement upon the expression of justice in taxation. The difference is intensified by the fact that the static type is in possession of most of the world's wealth and of most of the machinery of government. The exceptions are not numerous enough to matter. Thus the power of actual definite interests is at work, deepening the divisions of mind-type.

For our purposes, we are calling these types (1) the to-day-and-yesterday, and (2) the to-day-and-to-morrow types. The standards of justice of the first are set by the ideas, codes, conventions, customs of yesterday and to-day. If slavery, or the divinity of kings, or flogging as a cure for persistent begging, is part of the accustomed code, it is accepted as part of the standard of justice. For this type, justice in taxation essentially means leaving the present distribution of wealth (whatever that may be at the time) unaltered in its main outlines. No one has expressed this better than James Mill: "A tax, to operate fairly, ought to leave the relative condition of the different classes of contributors the same after the tax as before it."—"Elements of Political Economy," IV., viii.

This is a really vital point in relation to justice in taxation, and it divides men, though roughly, into two groups, whose central views of life cannot be reconciled. To hope for harmony between typical men of these groups is to ignore realities. They

have different measures of justice in their minds, which are fairly sure to offer the usual story of human growth. In the course of time, one of these measures will fade out, as the belief in it that makes it real fades out of men's minds. It may take centuries to fade, with some temporary re-strengthenings, as in the case of the competing ideas of a fixed or moving earth, or of the two theories of the sun, that it circled round the earth or was itself circled round by the earth.

Now the idea that taxation "ought" not to alter the distribution of the world's wealth is no more and no less of a belief, a prejudice, a pre-disposition, than the contrary belief. It may derive its strength chiefly from heredity: that is, from the type of mind that holds it; or chiefly from the environments of caste, class, race, or group. But in any case, it is a theory of a static and fairly satisfactory world, and it is quite rightly held by those who honestly conceive the present distribution of the world's wealth (that is, the distribution as it is in their own time) is on the whole satisfactory. But increasing numbers of them begin to doubt.

These people still include the majority of the present human world. They have not, however, the courage of their convictions, nor do they carry out the suggestion of the pose of sturdiness and of logical common sense that best pictures their attitude. They have accepted—certainly with protests—a system of graduated taxation, "death duties," and super-taxes that only need extending, without any change in principle, to alter completely the world's distribution of wealth. They have not the courage of their convictions, which usually means that they have not, truly and fully, the convictions.



The conception of justice in taxation held by the non-static type of mind is based upon the idea that the present distribution of wealth is unjust and unsatisfactory, and that taxation is one of the available, suitable, and proper methods of improving it. This should lead, in turn, to some concentration upon the laws of inheritance. The reasons why the study of theory has seen delays in this question of inheritance will probably be clearer to us in the years ahead. Meanwhile, practice in the matter moves swiftly. To-day the State is taking a third of large inheritances. No Victorian Chancellor could have thought of such action without a sincere sense of outrage to his code of justice.

It may be that some useful clues to the problem of justice in taxation can be found by the method of inquiry by antithesis, which has been used in solving the nature and definition of a tax. Just as the idea of a tax becomes clearer when it is compared with that of a price, so we may be able to get a better idea of Justice if we set it side by side with Privilege, Confiscation, or Robbery—the terms most commonly used by those who cry out against a tax they hold to be unjust.

The charge that a certain tax, or certain forms of taxes, favour certain classes or groups, or leave some privileged persons inadequately taxed, is a very common one, and in the great variety of taxes that the world has known it often must have been (by the mere laws of chance) a true one. But here again we are in the welter of clashing emotions, prejudices, warring interests. The landed class, the drink interests, the big industrials, the working class, have each and all been described, by one section or another,

as privileged. To analyse privilege instead of justice seems to offer us little help.

The same is true with regard to the charges of robbery and confiscation, readily and passionately made alike by the angry squires of 1816, who were outraged by an income tax of ten per cent. on incomes over £150 (and had all income tax abolished for a quarter of a century), and by a no less angry philosopher such as Herbert Spencer, to whom taxes for national education was downright robbery.

Most of this talk, in fact, is mere relief to violent emotion. Any and all taxation can be called robbery, once we have forgotten the social character of all wealth, and obsessed ourselves with the idea that what the laws of the society in which we live has allowed us to have and use is in all senses, and for all time, ours and our heirs'. We have but to think of the rise and growth of man upon this planet to see the furious protester against spoliation as a comic figure declaiming in tones of tragedy. In this world of shifting and relative claims and adjustments, there is no place for absolutes except in the ideals of men.

On the lower plane of relative claims, however, the protesters have a case, and should have a sufficient hearing. If in the past they have been too much regarded, there is no good cause why in the future they should be regarded too little. The practical question of the day is to secure the "reasonable expectations" of the present heirs of the world's wealth. The formula itself does not help us much: for the meanings of "reasonable" in relation to expectations are as endless as the meanings of "justice." There is no solution but in pragmatical schemes of "whatever works, is best," and methods

of change by steps rather than by leaps, since some leaps are into the abyss.

Justice, then, is a maxim of taxation that eludes us when we seek to define it. We cannot adopt it as a sole guide, because we cannot secure common agreement as to what it is. When we can trace the direction of the change (as, for example, from proportionalism to progression), we can make steps forward (some will call them leaps into the dark; others, mere marking time) in the known direction of the change. We may then have some confidence that the public opinion of to-morrow will approve, confirm, and extend our action, though the public opinion of to-day protests and is suspicious. For, in fact, all real advance along any line is an advance ahead of public opinion in the mass. The mob, in the sense of the suggestible passive-minded of all ranks, stands always like a wall of clay in the path of progress. The final enemy of democracy is the mob.

We are left, in the facts of practice, to select our standards of justice in taxation from three practical codes: those of yesterday, of to-day, and of to-morrow. They are always to be had for the searching. The records of the dead past offer us the first; the practice of last year, the second; and the final results of our best inquirers the third. As the subject of inquiry here embraces economics, ethics, political science, psychology—indeed, the social sciences generally—we must listen to the foremost and latest students of all these branches, and perhaps more particularly to those who have not confined their researches to one branch alone. The moralist who knows no economics; the economist who regards the logical and is blind to the psychological, have clear

defects as advisers upon so mixed and human a business as taxation.

The Chancellor in action will always show, in his actual proposals, some leaning towards one of these three standards. His range is limited. He cannot move much faster than the prejudices and interests of the time will allow. The history of Walpole and of Pitt illustrates this fact. He dare not, on the other hand, hark back too far towards the standards of yesterday. When he seeks safety, he will avoid both yesterday and to-morrow and live in the to-day of repetitions. But there is no definiteness, no real life, in this pretence that time stands still. Soon he must move, or be removed; so that finally the issue is simplified. He must declare himself for a static or for a dynamic world; he must set up the banner of yesterday or of to-morrow. For, like all things living and human, the idea of justice grows. It grows towards an ideal.



## CHAPTER IX.

### THE PRINCIPLES OF TAXATION : ECONOMY.

WE shall consider chiefly, in this chapter, the most important of all the principles of taxation : economy. But as a preliminary, and to preserve the sequence already laid down, what we have called the political principle may be dealt with.

#### *III.—The Political Principle: Conscious Citizenship.*

When such a subject as taxation has been explored in many countries for more than a century, the likelihood of any new “ principle ” emerging, and taking a place of any importance, is slight indeed. But there is an evil disposition in the politics of taxation that has already reacted on some who should be immune. Writers of textbooks on economics (but not many, nor any of repute) have accepted without inquiry the view that it is a virtue in a tax to be disguised ; that it is well that men should pay taxes without knowing that they pay ; that hoodwinking is one of the necessary arts of the statesman in matters of finance. This, in fact, has been offered as one of the excellencies of indirect taxes. It is rather their chief moral defect.

This is not a sufficient reason for placing “ conscious citizenship ” in anything resembling equality with the great taxation principles of justice and economy. But it is of a higher grade than rules about convenience ; and it is of real importance to all whose conception of government rises above simple opportunism.

Of those who advocate "hidden taxes," some have accepted the advocacy in mere unthinkingness, or in a simple desire to follow the line of least resistance. Others are definite cynics, avowed or unavowed. To them, the insistence on a consciousness of citizenship, in taxation or anything else, is only political in the sense of being very impolitic. Others, again, are mere demagogues, whose fluctuating principles are so swept about by waves from their sub-consciousness that they cannot always distinguish between conscious citizenship and sub-conscious selfishness. These last, as democratic government extends (and extend it must), will prove the most dangerous of all, for they flinch from all rigid standards, tests, and principles. The greatest foe of democracy is the demagogue. He is the deadliest destroyer of democracy, for he poisons the wells. The reactionary is, after all, a rather stupid bully. He has his savage recurrences, and enjoys his White Terrors. But his day is short. Human development goes on, and leaves him as an evil memory, together with his wild opponent. The mad murders of a Red Terror, which are the hot payment of years of suffering; the cold and legal fury of a White Terror, which is but frightfulness as a policy—these are not by their nature lasting. But the demagogue continues. He is venal, and may at any time carry his arts over to the enemy: we have all watched the transaction. But perhaps he is deadlier still when he remains with the army of democracy, for he debases its ideals. Empires tend to be destroyed by Imperialists, and democracy by demagogues.

This is to plead our case by opposites. More directly, we can put it in a chain of affirmations.

Man is an individual organism, and one of the definitely social animals. He has social and anti-social instincts, altruist and egoist. Each of these is as "natural" to him as the other.

Life in a modern, civilised State would be unbearable and impossible to a hunter of the Stone Age. A definite education for life in a modern nation is necessary. Little of this preparation (if, indeed, any) is a heritage from birth. It must be given during the lifetime of the individual. It is given through traditions, through the environment of home and civil life, through the education and the experiences of the home, the school, the fields or streets, conversation, Press, books and speech, religious and political propaganda.

The movement is one towards world-conquest by human co-operation. The egoistic instincts struggle against co-operation. They seek to take much from the world, and to give little. They disguise themselves from their possessors under handsome names.

So long as we are to be citizens, it is the plain duty of statesmen to encourage good citizenship, and not to exploit men's anti-social instincts, in taxation or in anything else. The egoist, as citizen, is eager that someone else shall pay his taxes—the foreigner, or another class, another group.

All who share in government should share in its responsibilities. The share must be apportioned according to the powers of the individuals, groups, families.

To encourage a group (such as the "working class") to believe that it has escaped taxes, or has been excused them, by charity and privilege, while at the same time taxing that very group by indirect



methods (and often very heavily) is immoral and un-statesmanlike. In effect, and sometimes in intention, this has been done.

It is needless to say that a Government should educate its citizens, for it cannot help so doing. It is necessary to say that a Government should educate its citizens in higher rather than in lower ideals of citizenship.

So long as there are taxes levied, every citizen who has a voice in the Government should be taxed from his surplus above the needs of his family, measured by the standards of the time and place. No surplus, no tax; but instead, a question to be answered: Why is there no surplus? This carries us beyond the boundaries of taxation, but the answer to it will react upon all affairs of government, including taxation also.

The citizen should know that he pays, know how much he and others pay, know the objects for which he pays. Since the payment is compulsory, inquiry must be free.

#### *IV.—The Economist's Principle: Economy.*

The two outstanding principles of taxation are Justice and Economy. Justice or Equity we find to be difficult of measurement, because we cannot agree upon a standard. Yet it is psychologically the most important of all principles of taxation. But in its total effect and influence it must yield in importance to the principle of Economy. For here the economist speaks from his own definite sphere; and after all, taxation is fundamentally an affair of economics in government.

The principle of Economy is our chief scientific standard measure. It has been for offences against this principle that the economists have most sharply rapped the knuckles of unscientific politicians. There have been pence of taxation in the past collected at the cost of shillings (the sin is not utterly of the past), and the principle of economy, as applied to the collection of taxes, has been known and approved for centuries.

But the economist is concerned with a wider range than this. His rendering of "the best life" (while he speaks only as an economist) is that in which the amplest and most varied satisfaction of human wants is secured by the minimum of human effort. Therefore, his principle of Economy covers the application of the whole of human energy, physical and mental, in the production of human satisfactions. His full rule of Economy in taxation, then, must cover far more than cheap methods of collection. He should tell us which of the forms of wealth are most economical to tax: that is, which of them may be taxed with the least hurt to the general production of useful things; and which are the most wasteful forms of taxation. As economist, he should go further, and tell us something of the best ways of spending the money when it has been gathered. But as we are now concerned only with the principles of taxation, we need not inquire about that.

The simplest practical application of the rule of Economy is that the total of taxes received by the State should as nearly as possible be equal to the total paid by the contributors. There will always be some collection costs, so that we cannot demand an absolute equality. But beyond this there should be no

wide divergence between the two amounts. All taxes on goods lend themselves to abuse in this direction. If some article, commonly sold in pounds, is taxed at £1 per ton, then the smallest practical raising of the price is by the smallest coin—a farthing. The purchasers of 2,240 lbs. will pay that number of farthings extra (£2 6s. 8d.), of which the State will receive £1, leaving £1 6s. 8d. paid by the buyers of the article, and added to the gains of the series of people between the producer or manufacturer and the retailer, the division being made according to the differences of economic “pull” of those in the series.

More striking cases occur in connection with import duties. An example from M. Gide’s book has already been quoted. It can be seen that the conditions favouring so great a discrepancy as this occur when

(1) the imported article is chiefly produced at home;

(2) the tax is levied only on the smaller portion imported (i.e., without any corresponding excise duty);

(3) the imported and home-produced articles are sold, as similar goods, in the same market.

Under these conditions, the amount of the import duty is added as an increase of price to the home-produced article. It follows that in all such and similar cases, a direct money subsidy is a cheaper method of preserving or building up a home industry than is an import duty.

Where a tax is levied upon a luxury, a harmful luxury, or something whose consumption is agreed to be sufficiently undesirable to justify its limitation,

then we have the best possible case for indirect taxes. The object is not "revenue only" (in fact it seldom is) but revenue together with an ulterior purpose : the deliberate discouragement of the use of a certain article.

The contrary of this at once appears : that it is opposed to the principle of economy to lay taxes upon such economic goods as are held to be socially desirable—food, clothing, and means of extending knowledge and culture. Here the economist, as such, must oppose all taxes, except in the direst need ; though, of course, as citizen and politician, he may claim to approve them, as a direct result of his political faith. His case should be that the "ulterior purpose" is strong enough and important enough to override even the rule of economy. This is a sufficient answer, if he can prove a net gain on the whole. When he attempts, however, to make out an economic (not political) case in favour of uneconomic taxes, he is in danger of being thrust by his friends of the platform under some such ridiculous motto as "Make the foreigner pay your taxes." There are cases, as he knows, where this is actually possible (an export duty on a monopoly); but they represent a negligible fraction of the world's trade.

But this part of the principle of economy is far from being the most important. It was relatively more important in the past than it is now, because many of the old taxes were so outrageously wasteful. A great deal of improvement has now been secured in this respect, and what is chiefly called for is extension, with watchfulness against backsliding.

The most important thing that an economist has to tell us to-day concerns the question : "Which

kinds of taxes will least hurt the production and distribution of useful goods? ” Since it is now certain that we cannot avoid having a large total of taxes, it is more important than ever to avoid the most harmful of them. We are all agreed on a big total, chiefly (1) because interest on debt must be paid, (2) because powerful armed forces must be maintained, or (3) because common expenditure on health, education, and social services must be maintained or increased. No one is prepared to diminish expenditure in all these directions. The “anti-waste ” newspaper campaign of 1920-1921 has only revealed what has been so often revealed—the extent of the uninstructed and suggestible class among voters, the dangerous combination of power with low ideals in newspaper proprietors, and the confusion of mind that takes “economy ” to mean any kind of retrenchment. The folly and ignorance of it, the anti-social tendency, are shown in the fact that the first reductions were demanded from the health, housing, and education services. The quick response of the Government to the clamour would startle thoughtful men, only that it has little of novelty. As these lines are written, the most uneconomic action is being taken in the name of economy. It is not strange that some economists develop a grim and cynic humour when they turn from their treatises to their newspapers.

Nevertheless, the main fact remains. If we “reduce taxes,” as the new cry has it, we leave a huge debt untouched. That in itself, apart from sheer repudiation, demands a heavy Budget. Given, then, a big total of taxes as unavoidable, how can it be raised with the least economic harm to the nation? To this the economist has an answer in two parts :

- (1) Relating to wealth as a whole, whether expressed in terms of income or of property ;
- (2) Relating to the different kinds of wealth.

The first of these refers us back to the Law of Diminishing Utility, already outlined. If the implications of this law were to be logically followed, regardless of all other considerations, then the whole of our taxes would be raised by 100 per cent. super-taxes. For since the upper portions ("last additions") of large incomes are the least useful, then the most economical taxation would be to take away these upper portions altogether. Logically, this rather startling conclusion is unavoidable. But we have to remind ourselves always that when we break up a subject into separate parts for inquiry, we must afterwards relate them to each other as parts of the whole that makes up human life. The principle of economy, in itself, certainly demands that taxation should "begin at the top," and should slice off the least useful upper layers of individual incomes. But a Chancellor of the Exchequer would say : "If I take away in taxes, say all income above £10,000, what will happen is that next year there will be no incomes over £10,000 worth mentioning. Families will divide out an income of, say, £15,000 into two or three parts, and the whole will escape taxation."

To this practical difficulty it might be answered that ways of checkmating this kind of evasion are used, even in our present system. But both argument and counter-argument may be set aside in face of a second and more vital consideration. Under this scheme, the mass of the nation would not be taxed at all. Now it is quite true that this is an affair of

politics and ethics, rather than of pure economics. But all effective thought is finally for action, and we cannot act in the matter of taxation without invading the sphere of ethics and politics. A nation with a big expenditure and little income-producing property, raising a large total of taxes entirely from the tops of the largest incomes, could only represent a stage of swift transition. Each year the exemption-line must be lowered, and new classes of payers brought in. To what position of satisfactory equilibrium could such a nation move? It could have two alternative aims :

Either (a) to build up enough income-producing State property to abolish all taxes, and therefore all separate classes of payers and non-payers ; or

(b) to remove through definite intentional efforts the economically wasteful living on incomes that are either (1) below a nationally-stated minimum, or (2) above a nationally-stated maximum. Super-taxes, inheritance taxes, estate duties, are already indirect declarations of a national maximum. We do in practice fine men for being too rich, but we do it evasively. Our instincts have led us on to actions that we still boggle at setting out in plain, logical forms.

This latter policy (b) can be put in a more direct and positive form. It is a policy of conceiving a nation whose centre absorbs its extremes by assimilating them or, if need be, eliminating them. Our nearest phrase for this centre is "the middle class," but the phrase is a clumsy one for economic purposes. A better phrase would be "the working class," but that also has been used so as to leave out many or

most of the most efficient and most productive workers. The "productive class" will fit the case better, if it be remembered that distributing goods is a part of production. It includes all mothers, all brain workers, all hand-workers (some are engaged in producing harmful or needless goods and services, but they are not individually accountable for that), and more especially, all explorers of new knowledge of every kind. It omits, and marks out for disappearance, the non-productives, wealthy or poor.

Chancellors are, in fact, tempted to over-tax this class, and this charge has been made again and again. But it is seldom followed up by a fair facing of the alternatives. These alternatives are : heavier taxing of another class (and only the wealthier class is available); the elimination of costly non-producers, rich or poor; retrenchment. Of these, the last is ineffective. Those who will not retrench on armaments are willing to retrench on education. Those who will not retrench on education will gladly retrench on armaments. And only a few Repudiationists will retrench on debt-charges (now a very large item). Apart from retrenchment, then, we have only the heavier taxation of large incomes and the deliberate reduction or elimination of non-productive classes as practicable alternatives. And both of these are in the line of the principle of Economy.

We have considered the rule of Economy in regard to wealth as a whole, in terms of income. In terms of property it belongs partly to the project of a capital levy, and partly to the consideration of different kinds of wealth. The question of a capital levy we leave to another chapter. Here we may consider the different kinds of wealth.



The older divisions of wealth (expressed in terms of income) were Rent, Profits or Interest, and Wages. The modern division into two parts only is best set out by Professor Cannan ("Wealth," especially Chapters IX to XII.). Taking income, or "the continuous power to demand" goods and services, whether produced or to be produced, we get a clear division into two distinct forms: incomes from the ownership of property and incomes from work. This is a division essentially like that reached by the statesmen under the names "unearned" and "earned."

Now in both these kinds of income, but chiefly and mainly in the first, there is a pure "rent element." The essential feature of a rent element is that it is completely unconnected with any service whatever performed by the receiver. If the receiver, say a rural landowner or the owner-manager of a factory, does in fact give his services, then the part ( $x$ ) of his income (whether called rent, profit, or by any other name) which represents what an equally efficient bailiff or manager would receive to take his place during, we will say, a year's absence, is not income from ownership of property, but income from work.

Leaving aside this payment for work done, there is a portion ( $y$ ) of the remaining income which, if he bought the land or the factory, represents interest on capital, calculated, we will say, on the current rate of interest. Any remaining portion ( $z$ ) is pure rent. Our present methods of taxation put the whole of ( $y$ ) and ( $z$ ) together as "unearned." There are also cases where some of the disguised income for work ( $x$ ) is also so classed. But if we are to divide wealth into separate parts for taxation purposes, we must deal with three classes and not two. For in relation

to economy in taxation, the productivity of the nation is best secured by taxing ( $z$ ) to extinction and taxing ( $y$ ) less than ( $x$ ). For the peculiarity of a rent-element is that it is capable of being taxed 100 per cent. without affecting the world's production of goods in the least. It is what Mr. Hobson calls an "unproductive surplus."\*

Our system of super-taxes, graduated scales, "earned" and "unearned" rates, and estate duties, represent a very considerable advance in this direction. It may be reckoned from Sir William Harcourt's Budget of 1894. How near it can be brought into line with the modern economic analysis of incomes, so as to differentiate more exactly between productive and unproductive surpluses, we cannot yet say. Mr. Hobson, in the book just quoted, has shown, at the very least, possibilities of this kind. The main objection is likely to be made on the lines of the opposition to the Budget changes of 1894, 1907, and 1909. That opposition was that the change proposed, in each case, could not be justly and exactly made. There would be "hard cases." This is an objection that never dies, but is put on the reference shelf after each defeat, for future use. It is valid, in proportion to the number and intensity of the hard cases; but it is political and not economic, empirical rather than scientific, an avoidance rather than a discussion of the central issue.

The Principle of Economy, then, considered by itself, directs that taxation

I. ( $a$ ) Should begin at the tops of large incomes, and work downwards;

\*" Unproductive surplus consists of such payments (in the form of rent, excessive interest, profit, or salary) to owners of factors of production as evoke no such increase of product." J. A. Hobson. "The Industrial System," p. XI.

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(b) Should absorb rent-elements in all incomes ;

(c) Should be laid upon surpluses rather than on subsistencies, and in the first place upon unproductive surpluses.

II. Should take as little as possible from the taxpayers, over and above what goes to the Treasury.

## CHAPTER X.

### A LEVY ON CAPITAL, AND ITS ALTERNATIVES.

A PROJECT for a levy on capital does not raise a new question of principle in taxation, nor has the discussion of projects during the last few years brought forward either a new principle or any reportioning of the principles which were already known, except to stress the administrative rule of Productivity.

There has been in the past some discussion as to the relative advantages of taxing capital or taxing income. In this country the general feeling and tendency has been to tax income. Where we have something more nearly resembling taxes on capital, as in the case of the Estate Duties, the amounts are usually paid out of income.

But the present discussion is the result of our present financial position. It arises from these figures :

#### *National Debt.*

At the outbreak of war .....	£545,000,000
In the year 1920-21 .....	£7,835,000,000
Total yearly debt charges ...	£345,000,000

The practical question is whether we should not get rid of this yearly burden of interest by one great effort. It is only possible (apart from sheer revolution and repudiation) by a capital levy or some equivalent. What choice of action is open to us? Sir J. Stamp gives three ("Economic Journal," December, 1919) :

- I. An increase of the income tax and super-tax ;
- II. A levy on capital ; or
- IIa. A levy on war fortunes ;
- III. Taxation of business profits, on a basis which would be some kind of improved Excess Profits Duty.\*

It will be seen that the last two projects are similar in their aim : to call upon those who have made money out of (or at least concurrently with) the war. There is only one objection to them, supposing the practical difficulties to be not insuperable (the will can generally make a way, unless none but a perfect way is to be accepted). They are scarcely adequate. Dr. Stamp himself reckons the increase of private fortunes since 1914 at £5,000,000,000 ; a huge sum, but we want £8,000,000,000. If one-fifth of it escaped or evaded the levy, the plan would only meet half our needs. Still, to halve our debt and to retrieve our disgrace in allowing so much war-profiteering are very considerable recommendations for any scheme.

But it is very difficult in practice, and often difficult enough in theory, to distinguish between " profits " and " profiteering." This new word seems to have been first used by the Guild Socialists some years before the war, to describe the class of people who live by levying toll, like Carlyle's " perfumed seigneur " : " The widow is gathering nettles for her children's dinner ; a perfumed seigneur, delicately lounging in the *Œil de Bœuf*, hath an alchemy whereby he will extract from her the third nettle, and call it rent." The profiteer was pictured as doing

\* Lord Leverhulme proposes, as another alternative, a tax on turnover, to be passed on to the consumer.

the like, and calling it profit. The word "privateer" probably suggested the form. As the word represents a distinct challenge to a way of life that is both accepted and resented, and as it has definitely entered our vocabulary, it is worth while getting its meaning clear. There is a curious and natural parallel between the use of "usury" and "interest," and the similar pair, "profiteering" and "profit." The former, in each case, is a term of odium. The distinction usually made is that taking excessive profits is profiteering, just as taking excessive interest is denounced as usury. Parliaments in the past have tried to fix a "fair" rate of interest. The steps in the process, in this country, are these :

- 1197. All taking of interest forbidden.
- 1486. A similar Act; implying that the forbidden thing was not extinct.
- 1545. Interest up to 10 per cent. made legal.
- 1552. Interest forbidden (result of the Catholic revival of Mary I.).
- 1570. Interest again legalised.
- 1570. Legal interest reduced to 3 per cent.
- 1854. All restrictions removed.

But it is impossible to mark a figure which will separate the allowable from the iniquitous. A poor woman in a dingy, wretched shop may buy a card of cheap pencils for a shilling. It hangs in her small window for six months or a year, till she sells the dozen pencils, say, at twopence each. In figures, her profit is 100 per cent. Meanwhile, a wholesale importer, on a trade of £100,000, we will say, makes

only 80 per cent. profit : £80,000. Is the poor woman three times as iniquitous a profiteer as the importer? The suggestion would be absurd. The true comparison is between social services rendered and socially-possible payment received.

In a vague way, it is by some such scale that the ordinary citizen judges, whatever may be his political beliefs. If the profits received only represent a fair payment for services rendered, the ordinary man does not cry out against them. Newspapers which seek to justify the present economic system, including all its inequalities of wealth, feel the necessity of persuading the ordinary man that somehow or other, in the very nature of things, all profit is the deserved and equivalent payment for services to the community. The argument is almost invariably circular. The essential fact which proves the justification is that the profits would not come in if they were not earned. The argument is unconvincing in this bare form, but it is convincing enough when set forth by a writer who has emotionally convinced himself.

But at least it seems clear that the ordinary man can and does conceive of profits as an indirect kind of wages or salary, payments for services rendered. There is such an element in all profits, and it may vary from a trifle to nearly the whole of the total (to include all possible if unusual extremes). Profits are not generally condemned

(a) Unless the amount received is excessive in comparison with the needs of the receiver and his family;

(b) Or unless the amount is large in comparison with the services given;

(c) Or unless advantage is taken of the needs of others, so that in fact there is not a receipt of payment for services rendered, but a levying of toll.

For these reasons, the separation of "fair profit" from "profiteering," for the purpose of taxation, is extremely difficult.

The levy on capital in general, without any attempt to distinguish between "war wealth" and other wealth, is a simpler matter, and further, it has greater productive possibilities. However, when such a scheme is drafted (several have already been outlined), a nearer approximation to justice could be made by putting additional rates upon traceable "profiteering" amounts. If inquiry proves this to be impracticable, then justice will be baulked, as when thieves escape with their plunder. We can but sigh and turn our attention to capital in the mass.

The first natural inquiry is: What is the gross wealth available? In round figures, the answer is: About twenty thousand million pounds (£20,000,000,000).

This figure may startle those who have not concerned themselves with national valuations. It will perhaps be the more easily realised in relation to the different valuations that have been made by Giffen, the "Economist" newspaper, Sir Leo Money, the Fabian Society, and others. A list of nineteen is given in Stamp's "British Incomes and Property," from which a few items are set out below, with Sir J. Stamp's own estimate for 1918 ("Economic Journal").



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### *National Wealth Valuations.*

Year.	Amount.	
1822.	£2,500,000,000.	(Lowe.)
1845.	£4,000,000,000.	(Giffen.)
1885.	£10,000,000,000.	(Giffen.)
1902.	£11,413,000,000	(Money.)
1905.	£12,671,000,000.	(Fabian Society.)
1914.	£16,000,000,000.	(Money.)
1915-16	(valued on 1914 figures)	
	£14,300,000,000.	(Stamp.)
1918	(by adding war-time increase of £5,000,000)	
	£19,800,000,000.	(Stamp.)
1920-21.	About £20,000,000,000.	

In view of the preceding assessments, we may take twenty thousand millions as a fairly reasonable estimate. We get then these round figures :

	About
Gross National Wealth .....	£20,000,000,000
National Debts .....	£8,000,000,000
Yearly National Expenditure	£1,000,000,000

What are the possibilities of retrenchment? They are relatively small. Most campaigns for retrenchment get their driving force from very strong feelings, prejudices, convictions that the State ought not to be spending much (if any) money for certain purposes. This is shown by the fact that "anti-waste," "economy," or "retrenchment" groups have always among their most active leaders people who are equally eager that the State should spend freely in other directions. If we were to try, at the present

time, to form a group of people to press for retrenchment (it would be misleading to say "economy") in all these directions, we should fail: Housing, Health, Education, Research, Army, Navy, Dreadnoughts, Submarines, Airships, Armed Forces in Ireland, in Mesopotamia, Local Government Grants, Old Age Pensions. The only "retrenchment" cry that unites us all is against wasteful methods in administration, *ca'* canny in the civil services. That is a constant and healthy sign. It represents a nation fairly well aware of the fact that it is, among other things, an economic organisation on co-operative lines, and constantly extending its business. A higher and higher business efficiency is constantly being demanded of the State servants. How fast the improvement moves can be seen by anyone acquainted with the pictures in Anthony Trollope's novels of the old Service under the patronage system, or even the Education Department (see Sir G. Kekewich's book under that name) of the 70's. This public watchfulness, like most of the phenomena of living organisms, moves unevenly, with rushes and rests. Also it is accompanied by the interested and the disinterested prejudices of those who fear the reduction of the fields of action of private enterprise. Whether the average efficiency of State and Municipal business affairs is, on the whole, above or below that of the *average* private firm of the same time and place, is one of the questions that it will soon be necessary to fit with an answer based upon as impartial an inquiry as can be obtained: this in the public interest and for the public enlightenment. Only one side, as yet, has had full opportunities to state its case; and the mass of the evidence we have is very strongly biassed. To imply,

as many excellent people do, that no work can be done efficiently unless some non-workers (investors) can make a profit out of it, is absurd, in the face of human history. So gross a statement, of course, is never made : but it is very constantly, though usually unconsciously, implied. The true test is to set pictures like Trollope's of the Civil Service in the mid-nineteenth century against those of the industrial world of the same period, as in "When I Was a Child," by An Old Potter. (Methuen, 1903.)

The effective human query in the matter of retrenchment is : Retrenchment in what direction?—with what object?—in obedience to what belief, dogma, doctrine? The same questions are vital in taxation generally. We tax to get money; and our willingness to have the State tax us depends very much upon the use to which we believe the money will be put.

A cry for retrenchment is not the same as a cry for economy. Retrenchment means spending less, but economy means spending wisely, whether much or little. To retrench on essentials is not economy, but the opposite. We may put aside the idea of obtaining much help from retrenchment. We may put aside also the crowd of new suggestions of taxes upon cats, titles, jewels, and so forth, without prejudice to any inquiry into them, but simply because their total possibilities are trivial.

If we set aside these sources because of their inadequacy, we must also set aside, for the same reason, any project of a new kind of Excess Profits Duty and of a Levy on War Fortunes. We are left—as we should be left, however we may make the inquiry—with two practical solutions, and two only :

- I. Increased taxes, in some form, upon incomes.
- II. A levy on capital. Of these, we will deal first with the levy.

*The Levy on Capital.*

The tremendous advantage of a Capital Levy is that it would throw from our shoulders the heavy burden of paying hundreds of millions of interest each year, with the debt still unpaid. Such a tremendous gain is sufficient to explain why the advocates of a Capital Levy include men of all parties and all political beliefs : economists like Professor Pigou, and reformists like Mr. Pethick Lawrence. Such an enormous debt, as most economists have said, should not have been accumulated. Far more of the expenses of the war should have been raised by taxation, far less by loan. But that is now beyond cure. It is true that other nations met their war expenses less out of taxes and more out of loans than we ; but their greater guilt or ignorance does not remove ours. Nor does it alter the fact that we have a vast debt to be faced.

Against the project of a Capital Levy it is urged :

(1) That the precedent is a dangerous one. The experiment might be repeated a few years hence. This is a question of psychology : an argument of fear. For practical purposes it matters very little whether this fear proves finally to be well-founded or not. The important immediate question is whether it is strongly held or not. Time, which may prove that it was well or ill-founded, will also supply the circumstances which will drive us to this solution or that. As for the reality of the fear (which does not depend upon its final proof or disproof) we can only say that there

is an amount of genuine fear, but we cannot measure the amount.

However, we can make one point clear. A Capital Levy to pay off part of the debt would certainly suggest another levy to pay off the remainder. If, then, we are to have a Capital Levy, it had better be one that will clear the whole Debt. That would, remove the very cause which brought forward the demand for a Capital Levy. This brings us at once to the second objection.

(2) (i) That the amount is so large that it could not be paid out of income in most (or many) cases, and would seriously cripple the working of many firms and societies. Eight out of twenty thousand millions is more than a third; and the twenty thousand millions includes a very great deal that is unrealisable, except slowly or with great loss. (ii) If it be urged that the State could take its Levy in kind, then it may be answered that in so far as this was done, the Debt could not be cleared; that the State would be embarrassed by the sudden ownership of a thousand forms of wealth, and would need to create an elaborate organisation, in haste, to deal with them, with the risk of the waste that attended the rapid extension of State organisations during the war. (iii) If it be said that the firms need do no more than hand over script to the State, then again the Debt could not be cleared at once: the State would have its income increased, but that would be all.

The counter-arguments are :

(a) No capital would be destroyed. It would be transferred. The eight thousand millions taken would be, under good progressive scales, the least useful of

the whole twenty thousand millions ; much of it would be “ unproductive surplus,” whose transfer would not affect the real productivity of the nation. Real productivity is to be tested by the goods and services produced, not by the incomes, unearned and earned, that are “ produced.”

(b) The State need not allow the Levy to be paid in the most embarrassing forms, though no doubt many unwilling payers would make some such selection, if they were left free choice. Also, a great deal of the Levy would, in fact, be paid in cash ; and arrangements could be made to deal with the remainder. Have we brains for war demands, but none for after-war demands ?

(c) If the State becomes owner of sufficient scrip, certainly the Debt will not be paid off at once, but it will be paid off in a few years, and leave the State with a continuous non-tax income.

(3) That a Capital Levy is spoliation and robbery.

This is true just so far as all taxation is robbery : which is the pure philosophy of anarchism. It is not a doctrine for man living in society, but for individual Robinson Crusoes. It has been said also, with more truth, and yet not truly, that all property is robbery. These cries will come from fear and anger. They can have no answer from economics, for their world is different. Our argument assumes that the Capital Levy we are discussing will be made, if at all, by the elected Government of the country. No doubt, a great section of the Press of the day will gramophone and megaphone such cries as “ Shaking Hands with Robbery,” but a free Press must be free to persuade according to its stage of culture.

In the place of the Capital Levy, a very great increase in the present income tax and super-tax, with the estate duties, is generally met at once, in discussions arising in clubs and similar places, with the terse remark : “ We are taxed to the hilt already.”

Now the plain, honest answer is : We are not. The “ working classes ” are not taxed as heavily as they were from about 1800 to 1820, to take one period only ; nor the lower middle classes. The upper middle classes, and still more the upper classes, were probably not taxed as heavily then as now.

But no class that is able to pay taxes at all (we have still too many “ untaxables ”) has reached its limit of taxation. It can never be said, while cake is baked and sold, that we have all reached a bare bread diet. And cake, with all its economic equivalents, still abounds. That some of us are more heavily taxed than others is true. That some (especially in families where there is only one income) feel the pressure of taxation, is true. But that all or most of us have come near our limit of taxation is grotesquely untrue.

But yet, is an increase upon the scale required even a bare possibility ? Certainly it is possible, if we are willing to shoulder the burden. We can, if we desire. If we do not desire, let us say so, and not pretend that the possible is impossible.

In a wider field than that of pure economics, we can see before us these paths :

(1) Drift, as now, with hopes of “ normal years ” coming of themselves ; with mutterings also in the forecastle, and some flashes of red bunting. This is a land of constitutional movements : but not exclu-

sively. Drifting is an easy solution : it calls for neither thought, foresight, nor action ; but it is uncertain. Some say even now that the roar of a cataract round the next bend of the river on which we drift may be heard. Others say it is round the next bend but one ; others again, that it is but the natural, harmless grumbling which we all use to gratify our desire for self-expression. These last say : “ Why worry ? Drifting is pleasant.”

(2) A Capital Levy, which we have discussed as far as our space allows.

(3) More taxes. Those who are not satisfied to drift, and some who would gladly drift, but fear to do so, can but discuss as between (2) and (3).

This third alternative has not yet been very clearly defined. We may conveniently examine it by putting it into the form of an alternative scheme to that of the Levy. There are a thousand possible schemes. This is but one of them, with no mark of distinction except that it appears to the present writer to be the best available solution he can imagine inside the framework of the known principles of taxation.

### *An Alternate Scheme to the Capital Levy.*

I. Budget for ten years ahead. Uncertainty in taxes is even deadlier than heavy taxes. While the present economic system of production continues, contracts must be made. There are many variable factors, of which taxation is by no means one of the least. A sufficient pledge that there would be no change of taxation (including customs) for ten years would compensate in part for very great increase in taxation.



II. Budget for a very large annual sum, approaching £2,000,000,000 a year. There must be allowed (1) the £1,000,000,000 at present needed; (2) a margin for the increasing demands of a nation, as for health and education services; and (3) a very substantial surplus to pay off the Debt. As some of the Debt would be wiped off each year, and as the revenue would remain nearly constant, the margin for extended services and the surplus for extinguishing the Debt would increase each year.

III. Levy the new taxes, as far as modern knowledge can guide us, as Direct Taxes, falling upon (1) unproductive surpluses, and (2) the upper portions of large incomes. Increase the Estate Duty scales upon the larger estates. No economist in the world has ever been able to frame a justification for very rich men or for very large inheritances. No economist of standing has ever attempted the task. Nor will anyone of repute, who has studied morals or ethics, come forward to make good this lack of justification. There is no case, in economics or in ethics, for the inheritance of any but moderate fortunes. Few of the statements of modern economics are of half the importance of these two following, and none are more firmly established :

(1) "The first and by far the most powerful cause of inequality of incomes derived from property is the fact that persons receive unequal amounts by bequest and inheritance."—Cannan\* : "Wealth," p. xix.

"If Socialist aspiration in England ever obtained much strength from Marxian doctrines, that time is past, and it is now chiefly dependent upon the popular

\* Professor Cannan, in giving evidence against coal nationalisation, described himself as "a bourgeois economist."

belief that greater equality in the distribution of wealth is desirable. Modern economics shows that this belief is correct.”—Cannan : “ Theories of Distribution and Production, IX., 5.

Let a statesman draft some such scale as this :

*Inheritance Duties.*

Duty.

Below £1,000 .....Nil.

Between £1,000 and £10,000.....According to a scale,  
from 0 per cent. to  
50 per cent.

Over £10,000.....From 50 per cent. ;  
in no case leaving  
more than £10,000  
to the heir.

Let him then ask every economist, every professor of ethics of any repute, to state the case, in economics, or in ethics, against such a scale. There is no case. The protests come from outside the halls of scientific inquiry.

The sole case of any value lies in the expediencies of politics ; that it is difficult to legislate in advance of the general level of intelligence and knowledge, or at least much in advance ; that the statesman has to consider not only what is just, but what is the accepted standard of justice of the time. But this is an insufficient argument to set against the clear findings of economics and ethics. What other arguments of importance are there ? The plain answer is, : None.

Here, then, is a course to which the economic inquiries of a century have been leading us, and here

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are we, in a great national crisis of need, with our future mortgaged.

We may reasonably say, then : Let the 10-year scheme include a very considerable rise in the scales of Estate Duties.

In putting such a scheme into practice, a timid Government might fix upon a yearly total of £1,500,000,000; a bolder Government upon £2,000,000,000. But in any case, if a very serious increase in the Estate Duties were made, the later years of the ten would probably bring in less from that source than the earlier. That could be allowed for, like any other margin. Further, it is a virtue in such a scheme that the larger amounts should come in during the earlier years, for the early wiping out of the Debt wipes out also, for every year that follows, a mass of interest.

This scheme is framed, as any such scheme should be framed, so that it is aimed against great inequalities, and so also as to be aimed as little as possible against productivity. In this it lies in accordance with two of the chief generalisations of economic science : that taxes should not check production any more than is unavoidable; and that a greater equality in the distribution of wealth is economically desirable. It is desirable on other grounds, but the case is sufficient on its economic arguments only.

But in the range of politics, government, and the psychology of citizenship, it has one clear advantage over the Capital Levy scheme. Let us repeat, first of all, the counter-advantage which the Capital Levy has over this Ten-Year Income Levy : that the sum raised would clear off the debt at once, and relieve

our finances from the yearly payment of interest at once. Then Ten-Year scheme is not so immediate.

The advantage of the Ten-Year scheme is of a different kind. It is that the plan involves no sense of change in our system. It grows out of our present scales. It is in that line of constitutional growth and advance which is one of our national traits and boasts. It raises no picture of revolution, either red or pink. Rather, it is in the nature of an insurance premium against revolution. The premium rate is high, yet by no means impossible. Had the war continued a few more years, as much as this, or more, would have been forthcoming, and our national cry would have been : " No price is too high." We might take for a post-war motto, one of a lower note than this : " Safety first."



## CHAPTER XI.

### TAXES AND LOANS.

DURING the war all Governments had recourse, in varying degrees, to two devices, both of which are increasingly condemned by the best modern exponents of economic science : the inflation of the currency by excessive issues of paper money, and loans. These devices may be viewed as attempts to find a substitute for taxation. Both of them are economically bad. If they are only resorted to for a short time, and to a small extent, their effects are not large enough, in the general economic life of the nation, to show themselves plainly. The effects, however, are none the less real because they are hidden in a criss-cross of other effects. Upon a large scale, however, paper issues and loans have effects that cannot be ignored.

The issue of paper money scarcely falls within our subject. It is adequately dealt with in Professor Cannan's " Money " (P. S. King, 2s. 6d.), from which we may here cite a few figures, in order to mark the extent of the issues.

	<i>Currency Notes and Certificates</i>		<i>Gold held against paper</i>
In 1914 .....	£25,156,000		
Added, 1915...	£32,600,000	...	£28,500,000
Added, 1916...	£72,700,000	...	Added, None
Added, 1917...	£45,700,000	...	Added, None
Added, 1918...	£94,100,000	...	Added, None
<hr/>			
	£270,256,000 paper		
			Against £28,500,000 gold

The chief practical effect of these excessive issues is now known to us by experience. It is to cause a great rise of prices.

*Loans.*—It is a characteristic of human history that a symbol comes to be forgotten as a symbol, and to be accepted for the reality that it represents, in proportion as it is more widely and continuously used, and more hallowed by associations of dignity and convention. Thus the image or picture of the god soon becomes a deity, ceases to represent the god who performs miracles, but performs them itself : cures the sick, moves a building, causes rain. Thus also money, the symbol of wealth, comes to be viewed as wealth itself. But it is only wealth (1) in the sense that the metal or paper of which it is composed are part of the world's supply of metal and paper, which are economic goods ; and (2) in the sense that it is, as money, part of the machinery of the assessment, transfer, and calculation of wealth.

During the late war, Governments needed the services of men and a supply of goods. The services of men they asked for and paid for ; or, under conscription, demanded and paid for, deciding upon the rates of payment<sup>t</sup>, as representatives of the nation. The goods, with few exceptions, were obtained by one of these two methods :

(1) They were paid for, at rates decided as a result of bargains made with the firms or persons producing or supplying the goods. The money for making the payments was obtained by levying taxes (a very small portion, also, from State properties ; the postal system and the Suez Canal shares being the chief).

(2) They were paid for, through banking transactions, by private individuals transferring their power

of demand over economic goods to the Government, in return for a security of other powers of demand for themselves or their heirs in the future. This is the essence of a loan. A wealthy man, in 1916, let us say, lends a sum of money to the State. He transfers so much of his power of demand (purchasing power) to the Government. He receives a promise of so much interest per year; that is, a power of demand for any of the purchasable goods of the world, year by year, until the whole original power of demand is restored to him, subject to fluctuations of prices.

It is clear that the actual goods and services needed by Governments during the war were needed at the time. They were, in fact, expended at the time. Posterity did not and could not produce them. In what sense is it true, then, that by the device of loans a Government can make posterity pay for a war? It is not in the sense of obtaining from posterity a single cartridge or the services of a single nurse. These must all of them be forthcoming from the actual resources of the time; nor can we forestall the future of supply except by quickening our rate of production: which we did, by securing the services of an army of women in the factories. What, then, is the part that posterity plays?

It is this: that the State secures an "unearned income" to the lenders and their heirs. The large part of posterity which lies outside this class, together with those within it (who will all, or nearly all, pay taxes), stands pledged to respect the power of demand represented by the yearly £345,000,000 of debt charges, in the hands of the lenders. The effect of loans upon posterity is to increase the total of unearned incomes; to extend the "rentier" class, in



numbers, in economic effectiveness, or in both. In so far as the number of the class is increased, the effect is to diminish the future labour supply of the nation, except in so far as some people with "independent incomes" (a misleading name) who need not work, still do, in fact, work. In so far as the effectiveness in demand for economic goods is increased in the lending class, the result to posterity is that the distribution of wealth is changed in the direction of greater inequality, which is economically a loss to the nation.

The recourse to loans was the result, in the main, of three forces : the comparative ignorance of economic science on the part of Governments, Parliaments, and the nation generally; the force of custom; and the reluctance of relatively wealthy men to pay directly for the war, when an alternative, more profitable to them, if not to the nation, was at hand.

The National Debts of modern nations have continually increased for over two centuries.\* These debts date from the end of the seventeenth century. When they passed into tens of millions, there were expressions of alarm. These were repeated when the tens became hundreds of millions. They are now only to be expressed in thousands of millions. Is the process indefinite, and if it is not, what marks its limits?

The economic limit depends upon the world's increasing powers of production. If this nation, for example, can improve its productivity so that the dead weight of an annual interest of £345,000,000 can be borne as easily, let us say, as the £24,500,000 of

\* The earlier loans were of a different nature. See Bestable's "Public Finance," Book V.

debt charges of 1913-14, then we may accept the policy of drift without any fear, at least, of a crash from this cause—for the present.

But all questions of taxes, of government, are finally answered in the minds of men. Side by side with this growth of tens into thousands of millions there is a growth in the spread of knowledge of economic and financial matters, and with it, a knowledge of possible alternatives to a continuously mounting debt. This psychological limit is probably more important and significant than any that is purely economic. And it holds within it the possibilities of revolution and repudiation. There are, in plain fact, definite limits of human endurance, and they do not easily come into focus until they are dangerously close. They may be apparently lost in the mists of the future, when in fact they are so close that a few years may bring them sharply into focus, but too late—as so often in history—for any effective preventive measures. To be willing to grant to-day what would have saved the situation, had you granted it yesterday, is one of the world stories that is constantly repeated without being learned.

Payment by loans is costly; it hides the facts but does not alter them; its after-effects are economically bad; it alters the distribution of wealth in the wrong direction. Already it has lasted for more than two centuries. It is doubtful if it will last for three, unless the spread of general education is seriously checked.



## CHAPTER XII.

### YESTERDAY AND TO-MORROW.

THE majority of the world's economists of repute were and are free traders, and even those who favour protectionist schemes do so in a cautious and limited fashion, not at all after the style of the politicians who translate protection into tariff scales. This is natural enough, for the economic case for free trade as against protection is very strong. "The Wealth of Nations," upon which modern economics has been built, is a free trade tract. In the contests between the two groups, the free trade advocates developed a theory that it was unscientific and vicious to use taxation for any other purpose than to raise the necessary money. "Taxation for revenue only" became a kind of war-cry. There were immediate tactical reasons for this development. When the protectionists advocated taxes on imported corn, they could rightly point to the danger of a decaying agriculture. To that the free traders replied (among other things) that taxation was an improper weapon to use. But this is too general a reply. In pure science and in pure art it is true that all ulterior aims are disturbing, and are likely to be dangerous. Research and adventuring are productive of the best human results—including also additions to material wealth—when they are pursued under no other stimulus than the passion for truth, knowledge,

beauty. But government and taxing are neither pure sciences nor pure arts. Like medicine, they are largely empirical, practical, pragmatic. They make use of certain findings of scientific inquiry, but they admit and use a daily compromise unthinkable for the scientist or artist. The most that can be said is that as the social and moral sciences grow more exact (more scientific) all affairs of government, including taxation, will pass through a similar change. One by one, empirical practices now tolerated will become impossible, like blood-letting as a medical recipe for illness in general. And there is no reason to expect that such a development will include as a doctrine "Taxation for revenue only." Our taxes upon alcoholic liquors are not levied for revenue only. If sufficient revenue were already secured without them, would even the strictest free trader, or the huskiest anti-prohibitionist, advocate complete free trade in gin and beer?

There is, in fact, no sound reason why taxes should not be levied with a view to some social advantage, whether to check harmful or useless luxuries or to limit opportunities for drunkenness, or to levy upon tobacco users rather than upon bread users; to stimulate production, or to avoid checking production; or finally, to alter the distribution of wealth to the general advantage.

This last is the contest of the immediate future. We can see most plainly the force that drives us to face this question, in the United States of America; we can see one of the possible or probable solutions in Russia. Less than two centuries ago, the total wealth, and the average family wealth, of the inhabitants of the United States was very small, by modern

standards. There has been a vast increase in population, and an increase, even vaster, in wealth. But an immense proportion of that wealth is in the hands of a small percentage of the present population. The next two centuries will probably witness a further and vaster increase; and present conditions, if unchecked, will inevitably ensure that great sums of this increase will be added to the present holdings of the wealthy group. These sums of the future are earmarked in advance for the heirs of the present holders of property in excess of what they can use. Other lands show the same problem, but we can often see a picture more clearly at a little distance.

Now this is a development that must reach, if it be continued, what Mr. Balfour once called "the limits of human endurance." It is a limit that has been reached in history more than once. It was reached in France at the end of the eighteenth century, and in Russia at the beginning of the twentieth. It implies the possibility of a catastrophe, and catastrophes foreseen may be avoided.

The Socialist, of course, has a plain, sharp answer to the question that is raised here; but we are not now dealing with Socialism: our concern is with taxation. And taxation has some concern with this matter.

There is a human institution, very old, very natural, founded in human instincts, and capable, like all such human instincts and institutions, of abnormal growth, of aspects of unhealth and disproportion as well as of health and proportion; an institution that has served, and is serving, as the chief agent in continuing and increasing this dys-distribution of wealth through the years: inheritance.

In its effects upon the distribution of the world's wealth, and of the increasing and more varied powers that go with wealth; upon the formation of aristocracies, and of new plutocracies that merge into older aristocracies, or become new ones; upon fixing the forms of trade, finance, industry, class, caste, government—in all these effects there is no single factor so powerful, so cumulative in working, than this of inheritance. Yet economists, socialists, politicians have dealt with as if it were of indirect or minor importance.

Indirect in some senses it is, but not minor. This indirectness, perhaps, has been one cause of a strange neglect. Another has been our tendency to think qualitatively or quantitatively, but not both. The desire to be one of a continuing family, to have a central family home of some dignity, to feel secure about one's children—all this is so plainly human, natural, and not unworthy, that it seems to decide the whole case in favour of the institution of inheritance. But this is too large an inference to be drawn from the facts. We are not compelled, because we wish to recognise a man's solicitude for his children, to proclaim his sacred right to leave half a county or a third of a railway system to his heirs.

Inheritance taxes, in themselves, are very old : as old, perhaps, as civilisation. They are beginning to acquire a new significance because the present world offers amazing possibilities of the continuous holding of vast and increasing sums by small groups of people. The increase in our own " Death Duties " has come chiefly from the mere need of larger sums by the State; but the world is likely, in the near future, to use and extend these taxes for the definite purpose

of preventing great accumulations by individuals. Let but the Russian experiment be copied, as it probably will be copied, by one or two other countries, and the wealthy groups of the remaining countries will be faced with and must balance the real alternatives that the future offers to them. For the basis of the Individualist world, as we knew it, is more than shaken. That no nation can afford to have either paupers or millionaires was a flourish of speech but yesterday. To-day it is discussable as a dangerous fact. To-morrow it may be a terrible commonplace. The old "Acquisitive Society," in Mr. Tawney's phrase, has developed within itself a deadly sickness.\* It can be adapted, and even cured; but a resolute attempt to continue it, in the old and present terms of accumulations, vast divergences of wealth, and recurrent unemployment, must create an explosion. There are, especially in a country like this, ample opportunities for adaptation and peaceful change; but the causes of revolutions are to be sought in the policy of those above even more than in the instigations of those below. It is the imperialists that destroy empires.

We are all living, and consenting to live and to hand on life, because we hope. It is plain truth that we live on "admiration, hope, and love." Our social life is a hope towards a fuller community. Institutions have arisen that won the general acceptance of men for many centuries, and were at last seen to be barriers to the growth of community. Such was slavery, such were serfdom, feudalism, divine rights of kings. Such also is the huge institution we have allowed to grow from the simple inheritance of a home-

\* "The Sickness of an Acquisitive Society." R. H. Tawney. Allen and Unwin.



stead or a name of honour. The most recent investigation of the problem of human communities marks this as fundamental (Mariver : "Community," 1917 and 1920). "So long as great numbers are, through no fault of theirs, destitute and expropriated, they cannot attain any adequate socialisation. They cannot root themselves in community, for community for them means merely a system of driving outer forces to which they are subject, and which they cannot in the least control. On the other hand, the industrial conditions which produce this expropriation have also made wealth, in the form of capital, more completely alienable from the personal significance of the possessor than any form of possession the world had previously known. *Undoubtedly the right of conveyance, especially conveyance by bequest, is the crux of the position*; for when a man transfers wealth he transfers not merely an external thing which may benefit its new possessor, he transfers also power over other men, it may be a power of life and death. This transference is a vital concern of society, and may well be limited by considerations of social welfare. Control over property is control over men. If, then, the few defend a socially unlimited control on the ground that property is necessary for personality, shall not the many reply, "Are we, too, not persons?" If on the ground that they have created this property, shall not the many reply, "Have you, then, also created us?" If on the ground that to limit property is to limit power, shall they not say, "It is also to limit our powerlessness"? There can certainly be no real development of community which does not mean an increased economy."—"Community," III., VI., § 3. (Italics not in the original text.)

In the earlier years of the war, it was said that democracy was on trial; and the implication very often was that democracy would be found wanting in the trial. It appears much likelier to-day that plutocracy, imperialism, and private enterprise have been put to the trial of human needs, and that the trial has shown them (and to some extent has made them) less securely fixed than they seemed before 1914. In matters of finance, Chancellors taxed during the war as far as their courage and the interests of their most powerful supporters allowed them to go (they did not travel far on that road), and then borrowed in tens and hundreds of millions. Europe is now largely in pawn to the bondholders, half bankrupt, pledged to pay for indefinite years vast annual sums. The bulk of this money, to be raised yearly from the nations as wholes, goes to a comparatively small number of families. The portion of the war debts held by people of the working class, or lower middle class, in any country is only a small fraction of the total. Of the world's yearly production of wealth, there is now ear-marked, to a greater extent than ever before in recorded history, a sum vast in its total, significant in its proportion of the whole, to be paid to a section of the civilised world, relieving them and their families and descendants from any necessity of engaging in productive work.

It can be said that there is neither novelty nor near danger in this position, because such a class has always existed since any civilisation appeared. This is a reference to history, and certainly in this matter there should be lessons for us in past history. Each of us, of course, reads that record through the glasses of his own prejudices. That is common to all of us,

and we cannot escape it. We can only set it down, as a preliminary to a description of the picture we see.

In that picture there rises, in State after State, out of an original group of what we should now call peasant proprietors, a comparatively small wealthy group, living upon "unearned" incomes; and also an increasing number of the insecure, who have no claim on any land, no store of any goods, no security of food and clothing. Systems of slavery, serfdom, poor-law relief, have in different ages offered some security of food, clothing, and shelter, and these human masses, being without alternative, have bought such security. The price paid is always degradation, and that degradation covers the uncounted loss of intellects and powers that might have enriched the world.

Such positions are necessarily unstable. A series of violent breaks, permitting a fresh start to be made, star the history of human communities. The Jewish Sabbatical Year was such a device: "At the end of every seven years thou shalt make a release. . . . Every creditor that lendeth unto his neighbour shall release it."—Deuteronomy, XV., 1, 2. To what extent this was a device to prevent, or to rectify, a growing gap between rich and poor, to what extent it was effective, we do not know in any detail. But here at least is a recognition of a grave social evil and social danger, with a device for easing it if not for curing it.

Among the early Greeks, the process of division went so far that a fresh start was made by the famous "laws of Solon" (about 590 B.C.). There was a vast wiping-out of debts: vast, that is, in relation to the wealth of the Athenian world of the time. Nor was this a case standing alone.

In Rome, which began as a group of peasant farmers, a similar and growing division appeared. For the significance of this differentiation into a wealthy, leisured group and an insecure group is that it becomes greater by the efflux of time and the manipulation of laws of inheritance and primogeniture. Livy says that it was the unbearable debts of the poor citizens that caused the revolts against the Government of Rome (fifth century, B.C.). The story of the Licinian Laws, whatever may be the historical facts behind it (the known accounts are contradictory and unsatisfactory) at least reveals the existence of an impoverished class, crying out under a mountain of debt owed to a governing group. More than once in the story of Rome, we find the poverty of the plebs facing the rigidity of the patricians. Rome won through, by a minimum of concessions, and at a fearful cost in human slaves. Mr. Belloc has it that Rome was broken at last by the weight of tribute and taxation. But it was not the backs of the wealthy groups that were broken by that weight.

Nearer our own time came the French Revolution, and whoever reads the history of France before the Revolution reads a history of taxes laid heaviest where the ability to pay was least, and kept comparatively light among the higher dignitaries of Church and State. The French Revolution was a fresh start made after a rearrangement of the land. To-day, we have in Russia a vaster example of a fresh start, with the feature of a dispossessed nobility, as with the emigrés of France after 1789.

Now in relation to the question of taxation, there seems sufficient evidence, if not to prove, at least to bring us to consider these points :

(1) A wealthy class, none of whose members need give any productive services to the State, must contain a large number of those who, in fact, do not give, but take only.

(2) Under ordinary conditions, history seems to show that this class is likely to take an increasing part of the world's wealth. Capital necessarily earmarks its toll on future wealth, no less than does entailed property.

(3) With the growth in wealth of this class, there goes a growth in numbers of the Insecure.

(4) In the past, something of a fresh start has been made, again and again, by partial remissions of debt, or by a violent break.

(5) The modern world has unconsciously developed a buffer, which for some centuries has deferred any violent break. This buffer is the Middle Class, called on the Continent the bourgeoisie. France of the eighteenth century, Russia of the twentieth, had not a Middle Class sufficiently developed to ease off a violent break.

A Bolshevik-haunted wealthy Briton might here draw breath, and comfort himself by the thought of the barrier of the Middle Class that stands between him and red ruin. He may have some confidence in that thought, as history tells us. But history never exactly repeats herself, nor are conditions ever exactly what they were. For if we put down a sixth point, it should be this :

(6) There is always a breaking point. If concessions are inadequate, or are delayed too long, the violent break will come, and then it is useless to offer even ten times what would have sufficed last year. But human beings, patricians and plebs alike are

greedier and more unreasonable when they act in classes or in nations than when they act as individuals. Further, the Middle Class itself shows signs of change. The wealthier of its members pass into the higher wealthy group, and are no longer a barrier, but among those needing a barrier. Many of the most alert-minded of the Middle Class, on the other hand, become the leaders and advisers of the possible insurgents. Finally, the Middle Class, especially in its lower ranks, is more oppressed by the weight of badly-distributed taxation than any other.

All this turns upon the perfectly natural human desire, in all classes, for security. That is a wider thing than any principle of taxation, but it is one of the great human desires that all laws for social use, including laws of taxation, must hold in view. Our immediate concern is with the facts of our time, and the relation of the known principles of taxation to them.

The significant facts of to-day are these :

(1) An increase in the number of those who need not (whether they choose to do so or not) render the State any effective services for the incomes that the laws of the State assure to them.

(2) An increase in the total holdings of the wealthy class.

(3) A vast burden of debt upon the nation, that is to be yearly expressed in the millions of interest paid to bondholders.

(4) An inadequate contribution from the wealthy class towards the great present needs of the State. To many of that class, conscious of the quick increases in income tax, super-tax, excess profits duty, the word "inadequate" will sound ludicrous and

unfair. But it seems like a plain fact to the man who once tramped a muddy trench, and now tramps a West End street, and looks at the shops and their clients.

(5) If and when a Labour Party comes into office, the distribution of taxation will be altered so as to fall more heavily than now upon the wealthier classes. This we all know, whether we rejoice over it or dread it. We know also that the working classes who send that Party into power will be likelier to approve than to disapprove of such action. The economist must approve or disapprove, chiefly on this test: does it stimulate or check the world's producing power, and the effective distribution of the world's goods? Now, if it be intelligently handled (and possibly it may be), it may definitely result in an improvement in the economic life of the nation and of the world. A definite belief in such a possibility is held by many instructed men and women in the Labour Party, and by many outside its ranks.

For to the economist, the great and final test must always be the effect upon production and distribution. He gives or withholds his sanction, when any project is outlined, according as it seems to him likely to improve production and distribution, from the economic-human point of view. And he cannot separate distribution from production: a fact which many people of the business world seem to find it difficult to grasp. A world with an "over-production" of clothing, and also with many naked backs, is not only unsatisfactory to the economist as a human being, but also as an economist. Distribution has then failed; and good production without satisfactory distribution is like a magnificent boiler—a masterpiece

of engineering, which is too large for the boiler-house for which it was intended.

The development of the theory of taxation and the practice of Governments have proceeded, broadly, side by side, and in the same general direction. Taxes have been levied more heavily upon the parts of wealth that can bear the levy without the process reacting unfavourably upon production. Those parts of wealth are to be found in two directions, with a certain overlapping.

The first of these consists of what Mr. J. A. Hobson has called the Unproductive Surplus. The Unproductive Surplus consists of those parts of income, of which pure rent is the best example, whose receipt does not stimulate the receivers to any further production. It is the mark of these elements that they may be taxed to extinction without any hurt coming to the productive life of the nation. The differentiation of rates upon earned and unearned income is a first vague groping after taxing this unproductive surplus. How far it can practically be carried we do not know, because the efforts have not yet been made. Possibly, it is on the whole impracticable; but it is not likely to be finally dismissed without a trial.

The second direction in which we may turn does not reveal a type of wealth that can be taxed absolutely without altering the productiveness of the nation. It offers us rather a scale, by which we may apply our taxes chiefly to the least valuable parts of incomes and of wealth. This is the scale of the Law of Diminishing Utility. A thousand pounds added to any number of previous thousands is everywhere of less value than any of the previous thousands. This is clearest in individual incomes, and heavy taxing of



the " tops " of large incomes will hurt the individual lives of the income-holders less, and will hurt the life of the nation less, than the same or even somewhat lighter taxation of the " basal parts " of the same incomes. To some such interpretation of " ability to pay " we must finally be driven. By the principle of economy in taxation alone, we should confine our taxing to the tops of the larger incomes. But the principles of taxation are but part of the principles of government and citizenship, and these are but part of the framework of human life. All adult citizens should be taxed, openly, adequately, so long as taxes are to be paid. But each of us should pay a larger and larger fraction out of every £1,000 or every £100 that is added to his income; indeed, out of every additional £1, if we can make our machinery efficient enough and fine enough for that. The working man who wishes to escape paying taxes is likely to be more sharply reminded of the duties of citizenship by a Labour Chancellor than by any other, little as men of his type expect it.

\*                      \*                      \*

To those who would call the suggestions of this book revolutionary, it might be answered that a better description would be : an alternative to revolution—if in that phrase we include the method of violence. Men of all creeds, castes, classes, readily and quickly turn to violence when their strong desires are strongly thwarted or threatened, Carsonites and Bolsheviks alike. Yet the lesson of human history remains : that war settles nothing, as Napoleon said at last; and war in essence is violence. The moral factor is in the long run the most powerful and effective, in peace as in

war. The makers of red revolution are the men of the extreme Right and of the extreme Left. The blame is nearly always put chiefly on those of the Left, because those outside the citadel must begin the attack. Those securely within have but to hold fast to enjoy a continuous victory. But if it be said that what is acclaimed as the red of the dawn may be but the lurid blood-red sunset of civilisation, it may equally be said that those who acclaim the *Morning Post* may truly be sounding the Last Post of their order. Both these extremists have courage and conviction ; but courage and conviction alone can solve no problems. Neither the fanatics nor the downright evil-disposed are numerous enough to hinder the world's betterment very seriously. It is not the violence of those hearts of oak that chiefly hinders us ; it is the fact that many of their heads, and the heads of their supporters, are of similar fabric. Nor is even this a cause for final despair ; for one of the common characteristics of human educability, apart from its wondrous range, is that it can make even wood semi-plastic.



## CHAPTER XIII.

### SUMMARIES AND APOTHEGMS.

*THE fundamental principle of taxation is Economy.*

The aim of Economy is to tax without checking the production of economic goods and services.

Since taxes are paid by persons and from incomes differing (i.) in kind, and (ii.) in size, then taxes should fall (i.) upon those kinds of income whose diminution or disappearance would not affect production : which is to say, upon rents and quasi-rents, or unproductive surpluses ; and (ii.) upon the upper portions of large incomes.

*The ethical principle of taxation is Justice or Equity.*

This infers a code or scale, to judge by. The most appropriate codes are (1) that of the average or typical man of the nation, and (2) that of the man who promises to be the typical man of the next decade or quarter-century.

These principles of Economy and Equity are in general better observed through Direct than through Indirect taxation ; through Graduated than through Proportional scales ; through taxes on Rent-forms of income than through taxes on Salary-forms ; through higher rates on " Unearned " than on " Earned " incomes ; through higher rates on wealth inherited than on wealth achieved.

The *political principle* of taxation is that every citizen should pay a share of the taxes, and should know that he pays, and how much he pays.

The *administrative principles* of taxation are :

1. Productivity;
2. Certainty;
3. Uniformity, Convenience, Generality.

A *tax* bears two distinctive marks : it is compulsory ; and its payment is no guarantee of any measured return. In both these respects it differs from a price.

Taxes are not and cannot be paid according to the benefits received.

Taxes are paid by persons ; but persons can pay taxes in more than one capacity.

The need for taxes measures the wealth of social desires and the poverty of State properties.

If taxation is robbery, then government is merely tyranny.

Taxes are never levied “ for revenue only.” They are levied for revenue, and with at least one definite purpose. There may be an ulterior purpose, to be judged as good or bad by social and economic science.

Hidden taxes dissolve the sense of citizenship. Open taxes challenge citizenship.

An old tax is no tax because it makes no disturbance. Uncertainties and disturbances are the great minor evils of taxation.

Great inequalities of wealth have never been justified in ethics : they are adjudged to be less and less desirable in economics, with the increasing knowledge of the science.

Taxation can reduce the great inequalities of wealth, and at whatever rate is at the time desired.

State borrowings invariably increase these inequalities.

Posterity does not pay for our wars. We cannot make posterity do that, but we can pledge it to endow many of the unborn with unearned incomes. The fulfilment of our pledge is in posterity's hands.

Saving is not always economy; we might dismiss all our dustmen, and save their wages, without achieving anything but disease.

Representation without taxation is demoralising.

The extent of taxation is the measure of State property : but inversely.

To tax the very poor a shilling costs two at least, but the final cost cannot be measured.

A well-graduated income tax approaches nearer to the perfect tax than any other we know.

Taxes represent the social spending of individual incomes.

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